











# PRINCIPLES OF CIVICS

BOOK

## Principles of Economics & Indian Economics

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## FOREWORD

• Professors Sachindra Nath Dutt and Sudhirendra Mohan Kar have impressed me as having a remarkable capacity for original research work. They have always taken a keen interest in economic research and investigations in social philosophy. As honorary research fellows of Bangiya Dhana-Vijnan Parishat (the Bengali Institute of Economics), and Bangiya Samaj Vijnan Parishat (the Bengali Institute of Sociology), they have taken a prominent and distinguished part in discussions of world-wide importance in social science, and of immense practical value for the economic and social reconstructions of India.

A brochure by Prof. Sachindra Nath Dutt entitled "ECONOMICS AND LAW OF CENTRAL BANKING" has been reviewed by the ECONOMIC JOURNAL (The Journal of the Royal Economic Society, London) in a manner that reflects considerable credit on his talent for independent research work. His paper on *Bodin, Montesquieu and Rousseau*, the French triumvirate of social thought, which was published as a chapter of my Samaj-Vijnan (Sociology), 1938, vol. I, has been well received by the Bengali reading public. It is a great pleasure to find Prof. Dutt very active in keep-

ing abreast of the latest theories and institutional developments through numerous journals of Economics and Political Science published abroad as well as in India. The present work on Civics in two volumes (Economics and Politics) indicates the mastery of its authors of fundamental principles, and of factual data as well as their thorough acquaintance with the requirements of the beginners in the social sciences. Indian scholarship can expect from them further contributions of substantial value along with the growth of their experience.

Calcutta University }  
2nd November, 1940 }

BENOY KUMAR SARKAR

## PREFACE

IN course of our teaching work in the University Tutorial College and elsewhere we have had opportunities of coming in close contact with the students, and of acquiring first-hand and intimate knowledge of their specific requirements and needs. We do not agree with the view that has passed current to-day that the students only want "convenient short cuts to success in the University examinations. There is a profound urge in them for a deeper intellectual satisfaction which is suppressed by our defective, and, indeed, soul-killing methods of teaching which continually impress upon the students the overwhelming necessity of passing University examinations with calculated economy of time and labour. While we have taken great pains to make the present work eminently suitable for the requirements of the students, judged from the stand-point of the University examination, we have at the same time endeavoured to evoke in the students a real enthusiasm for their subject. The University syllabus has on the whole been closely followed.

"Attention may be drawn in this connection to a special and distinctive feature of this book. We have

tried to present, so far as the severe limitations of space have permitted, the latest developments of theories and the latest available factual data. The social sciences are in a process of rapid growth and development, so that to present them in the correct perspective their treatment must be dynamic. We have therefore extensively used considerable fresh and original material. In our task we have been greatly assisted by the research experience that we acquired under the able guidance of Dr. Benoy Kumar Sarkar.

In Book I of PRINCIPLES OF CIVICS we have dealt with Economic Theory and Indian Economics.

In Book II we shall discuss elements of Political Science and Indian Administration.

Our sincerest thanks are due to Prof. Mihir Kumar Sen of the Vidyasagar College and to Messrs. Manoranjan Guha and Anileswar Roy of the Ananda Bazar Patrika for the encouragement and assistance that we received from them. Our pupils Sj. Sailendra Mohan Kar and Sj. Nishit Chatterjee, B.A., have greatly helped us in correcting the proofs and seeing the book through the press.

University Tutorial College  
Bhowanipur  
1st November, 1940.

SACHINDRA NATH DUTT  
SUDHIRENDRA MOHAN KAR

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# Elementary Principles OF ECONOMICS

## CHAPTER I

**The Economic Activities of Man** :—Man has many wants. Some of these wants he must satisfy or he will die. For instance, to keep himself alive he must have food to eat, water to drink and air to breathe. He must also have clothing and shelter to protect himself against the extremes of cold and heat. But man is not satisfied merely with keeping his body and soul together. That is to say, he cannot be satisfied with what Plato called a pig's life. He desires to make his life happy and decent. Hence he must have some comforts and luxuries. Some of the things that man wants, such as, air, water, sunlight are provided by Nature with a free hand. But for most of the things he wants, he must work. Man must earn his bread by the sweat of his brow—as the Bible puts it. Thus we find that man has wants. These wants lead to efforts and efforts bring satisfaction. The activities of man directed towards the satisfaction of his

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**material wants are called economic activities.** [ Material wants are satisfied by things which can be perceived by the senses ].

**Subject Matter of Economics ; Definitions** :—These activities of man in supplying his needs form the subject matter of the science of Economics. Hence Economics has been defined as follows :—‘Economics is the science of man’s activities devoted to obtaining the material means for the satisfaction of his wants.’\* It should be noted that man’s activities in this context do not mean the activities of a person living alone in a desert island, in voluntary or forced isolation. The actions of such an individual affect himself only, and such a case is altogether exceptional. The economic science studies the activities of man living in an organised society, i. e., activities which bring him into contact with other human beings, and which affect not only himself but others as well. Hence Economics is called a social science. We may also refer to *the definition of Economics given by Prof. Marshall* : ‘Economics is the study of man’s actions in the ordinary business of life.’† This definition calls for a few words of explanation. Economics is a study of man’s activities —activities which are devoted to the satisfaction of his wants. These are the activities that he pursues in the ‘ordinary business of life.’ In other words, Economics is concerned with ‘the wealth-getting and wealth-using activities of man.’ It would however be wrong to

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\* Economics. Fairchild, Furniss, Buck, P. 4.

† Marshall, Economics of Industry, P. 1.

say that Economics is the science of Wealth. Some 19th century writers had defined it in this fashion, and hence it had come to be regarded as the 'Gospel of the Mammon.' Marshall however lays the emphasis on the study of man. "It is on the one side a study of wealth and on the other and more important side, a part of the study of man" (Marshall). This means in other words that wealth is studied in its relation to human life and welfare. Wealth is only the means, and not the end—the end being the happiness and well-being of man. The Economics that we read to-day is 'the Economics of Welfare'—to use the happy phrase of Prof. Pigou.

**The Scope of Economics** :—Economics is both a science and an art. As a science it is a search for knowledge for its own sake—for the light it brings. In this aspect it tries to observe, classify and explain economic facts so that economic laws may be discovered. As an art it seeks knowledge for the sake of the fruits it brings. In this aspect it has a practical end in view—this end being the improvement of the economic conditions of the people. This practical aspect of Economics is more important. Prof. Pigou rightly remarks :—For Economics is a study of mankind in the ordinary business of life, and it is not in the ordinary business of life that mankind is most interesting or inspiring. One who desired knowledge apart from the fruits of knowledge would seek it in the history of religious enthusiasm, of martyrdom or of love, he would not seek it in the market-place."\*

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**Methods of Economic Study** :—There are two important methods of scientific inquiry—the deductive method and the inductive method. The deductive method is a process of reasoning which starts from certain general principles and draws particular conclusions from them. This method is also called the abstract method. The inductive method starts from certain facts of experience, and arrives at general conclusion from them. This method is also called the realistic or historical method.

Time was when the economists quarrelled much among themselves regarding the proper method for economic inquiry. Some of the earlier economists had laid much emphasis upon the abstract or deductive method. This had led to the invention of the fiction of the economic man—a person who pursued monetary gain energetically uninfluenced by moral considerations. This was a highly abstract and unreal concept which proved to be productive of some fruitful results for the science but which at the same time discredited the subject in the eyes of many people. At present, however it may be said that the old war of methods is over, and though new questions may arise each economist uses in peace the method proper to himself and his particular theme.\* Indeed, it has rightly been said “induction and deduction are both needed for scientific thought as right and left foot are both needed for walking.”\*

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\* Schmoller—quoted by Marshall, Principles of Economics Edition) P. 29.

**Economic Laws** :—What is a law? The word law is used in a variety of senses. It may mean any one of the following :—(a) customary law, (b) law passed by the legislature, (c) moral law, and lastly, (d) statement of a relation of cause and effect. In this last sense the word is used in Economics as in other sciences. Everything that happens in the economic world is related either as cause or as effect to some other thing. It is the function of Economics as a science to ascertain this relation.

Laws of the different sciences vary in their degrees of precision and exactness. The law of gravitation in Astronomy for instance is a very exact law. Economic laws are not so precise as the law of gravitation. For the subject of Economics is human beings and not dead matter. The actions of men are various and complex and uncertain. Laws of Economics are therefore compared to the laws of tides. Law of gravitation is exact in the sense that definite and certain calculations can be made on its basis many years beforehand. Such calculations are made regarding the movement of planets and stars and they are embodied in the Nautical Almanac which navigators take to the sea and which they use in finding out where they are. The law of tides calculates how the tide rises and falls twice a day under the influence of the sun and the moon, how there are strong tides at the new and full moon and so on. These calculations cannot be perfectly accurate and certain. Enough is not known about the weather beforehand to make a certain prediction possible. A heavy downpour of rain may upset all calculations.

## CHAPTER II

### Fundamental Concepts of Economics.

**Wealth and Goods** :—Wealth is a most important concept in Economics, because this is the main subject of our science. Wealth is not money as is ordinarily supposed. It existed before there was money. Literally, the word wealth means well-being—a thing that conduces to the well-being of man is wealth. This is however a very broad definition. In Economics the word is used in a much more restricted sense. It is useful to begin with the consideration of the concept of 'goods' to understand the meaning of 'wealth' in Economics. *That which satisfies a human want is called a good in Economics.* Goods may be of two kinds—free goods and economic goods. Free goods are those which nature provides in abundance so that no effort or exertion is necessary for man to secure or use them. Economic goods are limited in quantity so that efforts have to be put forth to acquire them. These economic goods are called wealth in Economics. Goods may again be material or immaterial. Material goods are those which can be perceived by the senses, e. g. bread, butter, tables, chairs etc. Immaterial goods are services of all kinds, e. g. the services of lawyers, teachers, musicians. The goodwill of a business is also to be regarded as an immaterial good. Wealth in Economics would include both these kinds of goods provided they have the basic quality of being ~~limited~~ in

supply. Goods may again be internal or external. Internal goods means the personal qualities of man—his skill, business ability etc. These are not included in the category of wealth although some\* economists are inclined to characterise them as 'personal wealth.' Only external goods can be wealth. Lastly, goods may be transferable or non-transferable. This means that they can either be passed on by the present owner to another owner, or they cannot be so passed on. Only the goods of the former kind can be treated as wealth. The economic definition of wealth is now clear.

Wealth=Goods which are economic (and not free i. e. which are limited in supply)—which are either material or immaterial—which are external to man—and which are transferable. Thus we see all wealth is goods but all goods are not wealth. Only goods possessing the above characteristics are wealth. If we analyse the whole concept of wealth we find it has two basic qualities—capacity to satisfy wants and limitation in supply. Following Penson, therefore, we may briefly define wealth as follows :—"Everything is wealth to us which has power to satisfy our wants, and which cannot be obtained without effort."

**Utility** :—"The capacity of anything to satisfy a human desire is called its utility." The word 'utility' in Economics is used in a purely technical sense. No judgment is passed upon the moral qualities of the thing that is said to possess utility. Whisky or opium may be

injurious to health but nevertheless if it satisfies a want it possesses utility. Prof. Pigou has preferred to use the word 'desiredness' to emphasise that the concept is free from moral implications. It is somewhat paradoxical that Economics which professes to aim at human welfare should ascribe utility<sup>1</sup> to commodities consumption of which is known to be injurious morally or physically. When it is remembered, however, that utility is spoken of in a purely technical and limited sense, and not in the ordinary sense of usefulness this apparent paradox is easily solved.

**Value and Price** :—The term 'value' is relative. It is an estimate of the relative importance of goods. It tries to express the importance of a good in terms of other goods. Value has nothing to do with money. Let us suppose there is no money, and we have to ascertain the value of a piece of cloth without reference to money. In other words we assume that we are living in the barter stage in which goods are exchanged for goods. How shall we under such conditions measure the value of the price of cloth ? To measure its value we must consider it in relation to other goods. We would have to say that this cloth is equal to so much rice or wheat and so on. This means in other words that in exchange for the cloth we can obtain such-and-such things. Value thus refers to exchange-value. "It is the expression of the worth of one thing in terms of another." (The expression use-value or value-in-use is sometimes used. This refers to the mere utility or usefulness of a thing, e.g. air,

sunshine etc. In Economics we are however concerned with only exchange-value. This means that in order that a thing may be said to have value in the economic sense it must not only possess utility but also be limited in supply).

*Price is the expression of value in terms of money.* In ordinary life it is price which is important. Value is a somewhat abstract concept and it is difficult to conceive the value of a thing by relating it to the thousand and one commodities that are available in the complex society of to-day. Price is a convenient and short-hand form of expressing value. We say that a thing is worth so many Rs or £s or \$s and we know its value. Thus we see that price implies value though the converse is not true i. e. value can be thought of apart from price as in the barter stage.

**Demand and Supply** :—Demand and supply are the two most fundamental concepts of Economics. Demand in Economics does not mean a mere desire. We have desire for an infinite variety of things in this world, but it cannot be said we have true demands for them. Demand in Economics means 'effective' demand which implies three things .—(a) A desire for a thing : (b) Possession of the means of purchasing it : (c) Readiness to use the means to buy it. In other words, demand in Economics is backed by the money wherewith it can be purchased, and by the readiness to spend the money for the object in demand.

Supply also is used in a technical sense in Economics. It does not merely mean the stock of a quantity of

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goods. It means a quantity of goods which is ready for sale, and which will be disposed of on receipt of the appropriate price.

Both demand and supply are inconceivable apart from price. There are laws of demand and supply which are stated in relation to price. According to the law of demand a given rise in price causes a fall in demand. Conversely, a fall in price leads to an expansion of the demand. According to the law of supply a fall in price reduces supply while a rise in price increases supply. These two laws of supply and demand are of great importance in Economics and at a later stage we shall find that they constitute the foundation of the theory of value.

[The twin concepts of demand and supply play an important role throughout the whole course of Economics. In the next chapter we shall study consumption which is another name for demand. In another chapter we shall discuss production which stands for supply. Demand and supply meet in and through exchange which leads to the theory of value. Exchange has certain problems of its own—money and banking and so on. Exchange may take place on an international basis. This gives rise to international trade. Finally, we shall discuss distribution which involves a reapplication of the theory of value—of the principles of demand and supply in relation to the factors of production. Thus we find that demand and supply are at the root of the entire economic theory, and they crop up at every stage of its discussions ].

## CHAPTER III

### Consumption.

• **Its importance** :—Consumption occupies a very important place in Economics. We have seen in Chapter I that the starting point of the economic activity of man is wants. Consumption is that part of the science of Economics which discusses the nature and characteristics of the wants of man and the questions relating to the satisfaction of the wants. As the wants are the starting point, so the satisfaction of these wants is the goal of economic activity. In this view the importance of Consumption in Economics is obvious.

**Characteristics of human wants** :—(a) Human wants taken as a whole are insatiable, and are unlimited in number. A little reflection convinces us of the truth of this fact. When a man's want for a particular thing is satisfied he stretches out his hands for another thing and then for yet another and so on in an endless manner. (b) Any particular want is however satiable. If any one consumes a particular commodity continuously for sometime he soon begins to dislike it however much he may have relished it at first. (c) Many wants are Competitive. Many wants of man compete with one another. We often find that when we have some money in our pockets we are torn between conflicting desires for a number of

objects. Once our more urgent needs are satisfied, we do not know how to make the most of our little surplus money. There are so many things that we might want to buy, but the limits of the purse compel us to restrict our choice to only a few among them. (d) Many wants are Complementary :—Sometimes we find that two or more wants are linked to one another. They cannot be satisfied separately. For instance, the wants for tennis rackets and tennis balls, for the pen and ink are inseparable pairs of wants which must either be satisfied together or not at all.

**The Law of diminishing utility :—**We have noted above that a particular want is satiable. From this characteristic of human wants follows an important law of consumption. It is called the law of diminishing utility. The law may be expressed as follows in the words of Prof. Chapman :—“As the amount of a thing consumed within a given time increases, the utility derived from it *increases at a diminishing rate* (so long as utility increases at all)”—\* If we analyse the definition we find that it implies the following things :—(a) a thing is consumed continuously for sometime ; (b) as a result the utility derived from it increases but not in proportion to the increase in quantity ; (c) a point is reached when there is no further increase in utility at all. There is complete satisfaction at this point..

**Marginal utility and Total utility :—**For a clearer understanding of the above law it is necessary to consider

it in relation to the two important concepts of marginal utility and total utility. For the sake of convenience of exposition it is usual to suppose that a commodity which is consumed consists of several distinct but equal parts which are called units. As more and more units of a commodity are consumed by a person a point is reached when he is on the margin of doubt whether further consumption would be worth while. The unit consumed on this margin of doubt is called the marginal unit, and the utility derived from it is called the marginal utility. The marginal unit is in fact the last unit consumed at any given point of time. While marginal utility refers to the utility of the last or marginal unit, total utility refers to the sum total of the utilities of all the units which have been consumed.

**An Example** :—The meaning of the conceptions of marginal utility and total utility and the bearing of these conceptions on the law of diminishing utility would become clear in the light of an example. Let us suppose a boy is taking some oranges—each orange is a separate unit which is perfectly equal to any other orange. This example may be presented as follows :—

	Marginal utility.	Total utility.
1st orange	... 100	100
2nd orange	... 75	$100 + 75 = 175$
3rd orange	... 50	$175 + 50 = 225$
4th orange	... 25	$225 + 25 = 250$
5th orange	... 0	250

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In the above example the marginal utility derived from the 1st orange is represented by the figure 100. Total utility is also 100. 1st orange is the marginal orange if the boy does not take any more orange. If he carries his consumption further and takes a 2nd orange the latter becomes the marginal orange, and the utility derived from it is 75—the marginal utility diminishes. Total utility is however greater being  $100+75=175$ . With the 3rd orange marginal utility falls still further being 50 but total utility is nevertheless greater being 225. Thus we find that while total utility increases marginal utility gradually falls. So in a precise statement of the law of diminishing utility we have to point out that while total utility increases as we consume more and more of a thing, it is marginal utility that gradually diminishes. This is what is meant by 'the increase in utility at a diminishing rate,' which is the expression that has been used by Chapman in his statement of the law. Finally, however a point is bound to be reached when marginal utility becomes zero as in the above example and even negative. After this point there is no further increase in total utility either. The want in question is at this stage fully satisfied.

**Classification of Wants—Necessaries, Comforts and luxuries**—From the standpoint of consumption, wants are classified into necessities, comforts and luxuries. The distinctions between these three classes of wants turn mainly upon the question of effi-

ciency. The necessities are of three classes :—(a) necessities of life, (b) necessities of efficiency and (c) conventional necessities. *Necessaries of life* are, as it is clear, absolutely essential for man's existence. *Necessaries of efficiency* add greatly to the efficiency of man. Without them his efficiency will suffer much. The efficiency that is added is greater than the costs that are incurred. *Conventional necessities* refer to those objects of consumption to which man has become so habituated that he can dispense with them at great personal inconvenience and discomfort, e. g., tobacco. *Comforts* add to man's efficiency but the increase in efficiency is less than the cost of comforts. It may also be said that comforts help to make man's life more varied and happier. *Luxuries* have been characterised as the satisfaction of superfluous wants. Some writers maintain that they satisfy the least urgent wants. The question has been much debated : How far can luxuries be justified ? Man's sense of decency revolts at the sight of a handful of persons rolling in an abundance of luxury while vast masses live in the midst of poverty and dirt and squalor. In this view it seems to be proper to urge that until a minimum civilized standard is assured to all no luxuries should be tolerated. For a scientific approach to the subject it seems however to be necessary to devide luxuries into two classes (a) harmless luxuries and (b) harmful luxuries. So far as harmful luxuries are concerned it is to the interest of society that they should be completely done away with. Harmless luxuries however need not necessarily be frowned upon, since they to some extent

add to the richness and variety of human life. It should however be insisted that luxuries should not be the special preserves of a number of big men. The important fact should also be remembered that there ought not to be any luxuries until the basic needs of the entire community are satisfied.

**The Standard of living** :—The standard of living is a very indefinite conception in Economics. It is however useful because it helps us to determine the nature of men's consumption. The standard of living depends upon the amounts of necessities, comforts or luxuries entering into men's consumption. If necessities—and absolute necessities at that—occupy the most important place in consumption the standard is said to be low. The standard becomes higher with the addition of a few items of conventional necessities, comforts and luxuries. The standard is very high among the rich with their superabundance of comforts and luxuries. The standard of living is not a fixed standard at all but a very variable one. It varies from class to class and from country to country. It is undoubtedly a convenient formula for comparing the economic conditions of different classes and different peoples.

**Saving and Spending** :—To consume anything we must spend money. The question however arises : Must we spend all the money we have or lay by a part of it for the rainy day ? Prudence has always dictated that some provision must be made for the future. Saving is also

necessary in a modern community to keep the machinery of production going. For capital is born of saving and without capital large-scale production is impossible.

The question has been raised whether saving is good or spending is good. There is little sense in this question because both spending and saving are equally necessary. How much one would spend and how much one would save depend upon one's size of income and family obligations. For the community as a whole it is desirable to follow a middle course between saving and spending. For if the people were to spend all of their money on present consumption production would come to a stand-still and the future would find them in a deplorable state of poverty. If on the other hand there was all saving and no spending the people would starve and their very existence would be imperilled. Hence it is elementary prudence to follow the golden mean in regard to saving and spending.

**The Law of Substitution :—( The Law of Equi-Marginal Utility ).** It follows from the law of diminishing utility. This law shows that it is impossible to secure unlimited satisfaction from any particular thing. Hence it becomes necessary to distribute one's income among a number of objects so that maximum satisfaction is obtained from each. This consideration would lead a man to compare the relative utilities of different commodities. His expenditure would be distributed in such a

manner that he derives equal marginal utility from the consumption of each. When equal marginal utilities are derived from all the commodities the total satisfaction is also maximum. This may be made clear with reference to an example. Let us look at the following table :—

Rupees.	Aggregate utility of rice.	Marginal utility of rice.	Aggregate utility of cloth.	Marginal utility of cloth.
1	10	10	9	9
2	18	8	16	7
3	24	6	20	4
4	29	5	23	3
5	32	3	25	2
6	34	2	26	1

Let us suppose a man has a weekly income of Rs. 9. What are the objects on which he would spend this income and in what proportions ? For the sake of argument let us assume that the person's choice lies between two commodities—rice and cloth. According to the law of equi-marginal utility, the ideal distribution of his income would be Rs. 5 on rice, and Rs. 4 on cloth, for in that case the marginal utilities would be

3 in each case, and aggregate satisfaction would also be maximum being  $32 + 23 = 55$ . If the income is distributed between the two objects in any other proportions the net satisfaction becomes less. If suppose Rs. 6 are spent on rice, and Rs. 3 on cloth, the marginal utilities are different being 2 and 4 respectively and the total satisfaction is less than what it was before being  $34 + 20 = 54$ . We may consider any other proportions in which the income may be distributed and we will find that the marginal utilities will differ and the satisfaction would be less than the maximum.

**Consumer's Surplus:** —Consumer's surplus means that sometimes the satisfaction that we derive from the consumption of a particular commodity is in excess of the price that we pay for it. This excess of satisfaction over the price paid is called the consumer's surplus. It is not difficult to find examples of the consumer's surplus in our modern society. Our needs, for instance, for the newspapers, the post-cards and so on are so urgent that we would pay much more than one anna or nine pies which we do pay for them rather than go without them. The economic measure of this consumer's surplus is *the excess of the higher price that we would rather pay than go without the thing over the price that we do actually pay*. This idea of the consumer's surplus may be expressed in another way with reference to total utility and marginal utility. The price that we actually pay for a commodity is equal to the marginal utility, but total utility derived from it may be far in excess of this marginal

utility and the difference between the total utility and the marginal utility is the consumer's surplus.

**Engel's Law of Consumption** :—This is a law which was laid down by Ernst Engel, a German economist. This law is based on the examination of the family budgets of different classes of people. This law shows :—

(i) The lower the income the greater is the expenditure on the necessities of life.

(ii) The higher the income the larger is the expenditure on comforts and luxuries.

## CHAPTER IV

### Production

**Introduction** :—In the last chapter we have dealt with consumption i. e. with the problems of the satisfaction of human wants. But the satisfaction of wants is impossible without the production of the objects of consumption. We shall now address ourselves to the discussion of the subject of production, and the numerous problems that are associated with it.

**What is Production ?**—The important question that confronts us at the thresh-hold of this subject is :—*What is production ?* Production means creation of new utilities. Man does not produce in the sense of creating things which did not exist before. Man's creative power is of a very limited character, and consists essentially in adapting existing objects to human use. It is a process of rearrangement and reshaping of materials that already are there. Let us understand this in the light of a very simple example. We may consider our small writing table. We say that it has been produced by the carpenter. What do we precisely mean by this ? We certainly do not mean that the carpenter knows some magic by which he created this table out of nothing. The table is made of wood which existed long before the table was made. This wood had its abode in the forest where it 'flourished' in the shape of giant trees. The trees were chopped by the woodcutter. The wood thus secured was dried and seasoned and then sent to the place where it was required. Finally it was given the shape of the table by the carpenter. The production of a table consists of a series of operations at the end of which stands the carpenter. Far from having created the table he has only given the finishing touches to the product of the labours of a number of men. The entire process from the beginning to the end has been one of adapting the wood which was in the forest to the use of man. In its original state it was of little or no use for the purposes of men but after its transformation into this admirable little writing table

it becomes indispensable—at least for us the students and teachers. What was not useful has been made so—production therefore has meant an addition of new utility or utilities and not the creation of the table itself. The form has only been changed. The wood-form has become the table form. *We may call this the creation of form utilities.* Utilities may be created in other ways. For instance there are place utilities. We may refer again to the example of this table. This table embodies form utilities, but it contains place utilities also. It has been carved and shaped out of the wood, which had to be brought from the forest to a place where it might be required. This means creation of place utility. In the same way time utilities may be created. Example of the table again will serve to illustrate this. The process of drying the wood and seasoning it is spread over a period of time. Time utilities are also therefore created in the making of the table. *The table appears thus to be the result of the combination of a complex set of factors—place utilities, time utilities and form utilities.* Creation of utilities takes place on the one or other of these lines, and all the various producers that we come across in life—the agriculturists, the industrialists, the traders, merchants and others are engaged in creating some or all of the above forms of utilities. Moreover, creation of utilities is not associated with material objects only—utilities may be created in the form of immaterial services—for services are as much important objects of consumption as material goods. If they have want-satisfying power they also possess utility.

**Factors of Production** :—The foregoing discussion makes it clear that production is a complex process. It is to be noted now that production can take place only by the co-operation of a number of important factors. These factors have been listed as land, labour, capital and organisation. Much has been written about the relative importance of the different factors of production. It may be admitted that the aforesaid factors boil down to two fundamental factors, viz. Land and Labour or Nature and Man. Beyond this it is impossible to assert definitely which factors are more important. One or the other factor has played a predominant part in the different stages of economic development. Time was when land was all-important and was regarded as the only source of wealth. Later on the pride of place was given to labour. With the development of the industrial civilisation, capital and organisation have become more and more important. It would not however be accurate to characterise in a general way any or some of these factors as being of overwhelming importance. The important thing is the combination of these factors in the right proportion according to the special needs of each industry.

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## CHAPTER V

### Land

**Land** :—The word land is used in Economics in a very broad sense. As Marshall puts it, "By 'Land'" is meant not merely land in the strict sense of the word, but the whole of the material and the forces which Nature gives freely for man's aid, in land and water, in air and light and heat." The phrase 'Gifts of Nature' has been used by Penson in place of land.\* The above expression brings out clearly the full significance of land as a factor of production.

**The Law of Diminishing Returns** :—The most important fact we should note regarding land is that its supply is limited. This gives rise to a most important law. This law is known as the law of diminishing returns. It has been expressed by Marshall as follows: "An increase in the capital and labour applied in the cultivation of land causes *in general* a less than proportionate increase in the amount of produce raised."† Let us analyse this definition. (1) There is a particular plot of land, (2) capital and labour applied to it are increased, (3) application of more capital and labour increases the produce of the land, (4) this

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\* Cf. "Land is the representative of the free gifts of nature, which are of economic significance." (Henderson, Demand and Supply, P.83)

† Marshall—Economics of Industry, P. 91.

increase in produce is smaller in proportion than the increase in capital and labour, (5) it is of the utmost importance to observe that the law relates to the amount of produce and not to the price of the produce.

• An example will shed much light on the operation of the law. Let us suppose there is a farmer cultivating a *bigha* of land. Capital and labour worth Rs. 10 are applied to it at first and the amount of produce, say rice, that is raised in consequence is 10 maunds. The farmer decides to apply more capital and labour with a view to increase the produce. Let us suppose he doubles the quantity of labour and capital so that capital and labour worth Rs. 20 are now devoted to the land. Now the amount of the produce that will be obtained from the land will not be doubled. It will be less than double, i. e., smaller in proportion than the increase of labour and capital. Thus while the amount of capital and labour are increased from Rs. 10 to Rs. 20, the consequent increase in produce will not be from 10 maunds to 20 maunds but to, say, 15 or 16 maunds. [For convenience of exposition capital and labour applied to land are supposed to consist of equal successive doses. As in the above example we found that two equal doses of capital and labour—each worth Rs. 10—were applied. It is further to be noted that as the law of diminishing utility leads to the conception of marginal utility in the same manner the law of diminishing returns leads to the conception of marginal returns derived from the marginal dose.]

of labour and capital]. Let us now look at the following table :—.

**A Plot of land 1 Bigha in size is cultivated**

Doses of Capital and labour.	Marginal returns of produce.	Total Produce.
10 (1st dose)	10 mds.	10 mds.
10 (2nd dose)	5 mds.	$10 + 5 = 15$ mds.

It would be clear from the above table that the diminishing returns refer to the decrease in marginal returns or marginal produce—total produce goes on increasing, at least for sometime. The marginal produce of the second dose (3) is less than the marginal produce of the first dose (4). This is called the law of diminishing returns.

This law is however subject to certain limitations, as is indicated by the qualifying phrase, in general, in Marshall's definition. We may consider these limitations one by one :

(1) Sometimes it happens that the land is insufficiently cultivated with the first dose or even the first few doses of capital and labour. Maximum utilisation of the resources of the land may require increasing application of labour and capital for sometime. In such a case returns from the land may increase instead of diminishing—we may have increasing returns instead of diminishing returns.

(2) Secondly, an improvement in what has been called the arts of agriculture may hold the operation of the law in check. If a new machinery for cultivating land is invented, and more capital is invested in the land in the shape of this machinery, production may greatly increase instead of diminishing.

(3) Lastly we have to note that some inferior grades of land become superior grades as the result of certain changes in their surrounding circumstances. Development of irrigation facilities or of drainage facilities may endow a land with new fertility. The law of diminishing returns which would have come into swift operation in the land when it was of the inferior variety is again held in check as a result of the improvement in the quality of the soil. More capital and labour may now yield increasing returns from the land instead of diminishing return.

In conclusion however it is to be noted that the limitations mentioned above do not invalidate the law. The specific circumstances that we have considered above only hold the law in temporary abeyance or check. Ultimately this law does and must come into operation, the fertility and other resources of the soil being limited. Had it not been for this law, all the corns of the world could be produced from a small plot of land by pouring more and more capital and labour into it.

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## CHAPTER VI

### Labour

**Labour** :—The word 'labour' in Economics is used in a special sense. We are apt to associate *labour* with the *labourer*. This leads us to think that labour means manual labour. In Economics, however, labour as a factor of production includes both manual and intellectual labour.

**Productive and Unproductive Labour** :—The earlier economists made much of a distinction between productive and unproductive labour. Adam Smith, for instance, characterised as unproductive all works which 'perish in the very instance of their performance and seldom leave any trace or value behind them.' These works are the services of all kinds—the labours of domestic servants, of administrators and magistrates, of soldiers and priests, of doctors, artists, authors, teachers, musicians and so on. Adam Smith thought that labour which was devoted to the production of material objects was alone productive. Services were regarded as unproductive by Adam Smith because they did not result in the production of material objects. This distinction has been regarded as incorrect and misleading by the modern economists. According to them production

means, as we have seen, creation of utilities. So utilities may assume the form either of material objects or of services.

The expression unproductive labour is used in a quite different sense, now-a-days. Labour is now regarded as unproductive if it fails to produce any utility at all. Thus labour devoted to a half-finished building which is not fit for human habitation is unproductive. While however the old distinction between productive and unproductive labour has been definitely rejected a new distinction between *more or less productive labour has been made*. This means that sometimes our labour results in the creation of adequate utilities. At other times the utilities created fall far short of the efforts made.

**Efficiency of Labour** :—Efficiency of labour depends upon two important conditions, viz., (a) ability or competence of the labourer himself and (b) ability of the employer who directs the work of the labourers. Ability of the worker implies the following.—(i) His physical fitness. This depends upon his standard of living, and on heredity. The main question under this head is whether the labourer is provided with only the bare *necessaries of life* or also gets the *necessaries of efficiency* and some *conventional necessities and comforts*. In the former event his efficiency would inevitably be low. A fairly high standard of living is absolutely essential to efficiency. (ii) Technical fitness :—This is a matter of training and experience (iii) Intellectual fitness :—

This is a matter of education. (iv) Moral fitness :—This is a question of character.

It may also be noted that efficiency is greatly affected by climate and by the environment in which the labourer works. Marshall pointed out that for efficiency the labourer must work in an atmosphere of freedom, hopefulness and change.

(b) Ability of the employer: —Under the modern system of production the labourer is not his own master. He is only a part of a gigantic machinery of production which works satisfactorily only if its different parts co-operate in the right manner. This co-operation is controlled and directed from above by the employer. The latter can contribute much to the efficiency of the labourer by proper direction and control. Labourers working under bad employers are bound to be somewhat inefficient.

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## CHAPTER VII

### Capital

**Capital** :—Capital is born of saving. Now, what is saving ? We have seen in Chapter II what wealth means. Wealth may either be spent or saved. When wealth is saved it becomes capital. Saving however does not mean hoarding. Hoarded wealth is not capital. Wealth that is devoted to further production becomes capital. Like wealth capital is independent of money. It is however usual to express capital in terms of money. Essentially 'by capital we mean concrete instruments made by man.' These instruments are utilised for further production. These instruments are themselves the results of the past labours of man. Hence capital is sometimes characterised as 'past labour.' It must not however be thought that capital is only an off-shoot of the factor of labour. It should be regarded as an independent factor of production. For if labour has created capital, capital also has greatly assisted labour.

**Fixed Capital and Circulating Capital** :—"Capital which is capable of rendering repeated services is called fixed capital. That which can perform its service once is called circulating." Buildings, plants and machinery constitute fixed capital. Raw materials, finished goods etc. are circulating capital.

**Growth of Capital** :—Capital we have seen is the result of saving. There cannot be any saving without a surplus. Prof. Seligman says 'the root idea in the conception of capital is that of a surplus.' But while there cannot be capital without a surplus, the mere existence of a surplus does not create capital. Certain important conditions of the growth of capital may therefore be noted. These conditions may be divided into two broad classes, viz, (a) Subjective conditions, that is conditions relating to the mental attitude of man and (b) Objective conditions which are external to man.

**Subjective conditions** :—(i) Foresight. This refers to the habit of distinctly realising the future and of making provisions against its uncertainties. It is the habit of subordinating the present to the future. This habit has developed gradually in man in course of a long process of social evolution. (ii) Another important psychological condition of the growth of capital is family affection. Attachment to one's family naturally induces a person to save wealth so that the family may not become destitute after his death. (iii) Yet another psychological factor that sometimes contributes to the growth of capital is love of power and position. With some people, making money becomes literally a passion. A love of display and ostentation and power is at the root of this money-making craze. (b) Objective conditions : (i) The most important objective condition is the existence of a surplus above necessities. This is apparent from the nature of capital as we have understood it above. An attempt to save when there is no real surplus

can only be harmful. For instance a poor man with a low wage who tries to save by stinting himself in food and clothing does incalculable harm to himself as well as to his children.

(2) Another important objective condition is that there should be reasonable security of life and property in society. In the absence of such security the urge to save is very weak, as one stands in constant fear of being killed or robbed of one's saved wealth.

(3) Scope for investment is also a very important condition. The stimulus to saving comes not merely from the desire to make a provision for the future. It is derived to a greater extent in the modern world from the desire to use it as a source of more wealth. This cannot be possible unless there are sufficient opportunities for investment, i. e. unless there is a strong demand for capital which can be utilised in productive processes.

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## CHAPTER VIII

### Organisation

The function of organisation is the direction and control of land, labour and capital so that they may work together effectively. This important function is entrusted to the business man, the enterpriser, the entrepreneur.

**The Role of the Entrepreneur** :—The entrepreneur has been characterised as the captain of industry. His functions are those of organisation and leadership. It has been said that the entrepreneurs are concerned with deciding things rather than with doing things. The functions of the entrepreneurs are mainly of two kinds, (a) bearing of risks and uncertainties and (b) organisation. As regards (a) it is to be noted that the modern system of production is a long and round about process so that its results cannot be foreseen. In consequence a great deal of risk is involved in modern business and industrial enterprise. There must be some one who would be prepared to shoulder this risk for otherwise production would become impossible. With regard to (b) it is to be observed that the modern system of production is so complex and is on such a large scale that without organisation there would be nothing but chaos in business and industry. The entrepreneur has to do this work of organisation by bringing together the different factors of pro-

duction and by assigning them to their proper works. This is at once a delicate and a hard task. In this view the entrepreneur must possess certain special qualities. He must not only have directive ability and capacity for leadership but must also be endowed with the power of imagination to a high degree. He must be a shrewd judge of human character and must possess wide knowledge of business and market conditions. Last, but not least, he must be a man of courage without being an adventurist so that he may be ready to face risks.

**Types of Business Organisation** :—Business may be organised on the basis of (a) the single entrepreneur system, (b) the partnership system and (c) the system of the Joint Stock Company. (a) **The single entrepreneur system** played a great role in the past but has ceased to be important in modern times. Under this system the entire work of financing and organising industry is done by a single man.

(b) **The Partnership System** :—Under this system two or more persons get together and organise a business. There is a close personal contact between the different partners. The system is based upon the principle of unlimited liability which means that 'each of the partners is liable individually and without limit for all debts of the firm.'

(c) **Joint Stock System** :—The Joint Stock System is the most important system of business organisation.

of modern times. The Joint Stock enterprise has played a very important role in modern capitalist development. Its main advantage is that it is based upon the principle of limited liability which signifies that the investors in such a Company are liable to the creditors only to the extent of their investments. Their liability for the debts of the firm is thus limited. Their personal properties cannot be touched in case of the Company going into liquidation. It is further to be noted that the shares of a Joint Stock Company are transferable. This makes possible a greater division of risks. A person who has purchased shares of a company is not tied down to it to the bitter end. If he does not think well of its prospects he can dispose of his shares.

The organisation of a Joint Stock business is of a somewhat complex character. It consists of the following distinct parts. First there are the shareholders who bear the real risks of the business. All shareholders do not bear equal risks. There are ordinary shareholders and preference shareholders. Those who had preference shares have claims to a fairly high rate of interest. The ordinary shareholders are not entitled to receive any fixed rate of interest. Their reward depends upon the success or otherwise of the business. There is another class of persons who contribute to the capital of the Joint Stock Company. They are known as Debenture holders. They practically take no risk as they are entitled to a fixed rate of interest for the capital advanced.

by them. Moreover, Debenture holders, if their interest is not paid, may be entitled to seize or sell the assets of the Company in order to get their money. Thus we see that the Joint Stock Company raises its capital from the shareholders and Debenture holders. After the shareholders we come to the directors of the Company. The directors are elected from among the shareholders by the shareholders. They lay down the general policy of the business. The actual work of supervision and management, however, is done by salaried managers and other employees.

### Special problems of organisation

**Division of Labour** —One of the important characteristics of the modern system of production is that it is broadly based upon division of labour. The division of labour may be considered from two aspects. In one aspect it is a process of specialisation. A man applies himself wholly to a particular kind of work or to a part of a work and acquires special skill and competence in its performance by continued application. In another aspect, division of labour means co-operation—co-operation among a large body of workers each engaged in a specialised function.

**Forms of Division of Labour** :—(i) Division into trades, professions and industries. This is the commonest form of division of labour that we meet with in life. We find that different persons go in for different trades,

industries and professions. One person may choose an independent profession, say, of law, or of medicine. Another may choose an industry. A third may take up a particular trade and so on.

(2) Division into complete processes. Production of some commodities may pass through several stages, each stage being complete in itself. Production of cloth, for instance, consists of several distinct processes, some persons are engaged in growing the cotton, others make the yarn, still others produce the cloth. Each of these processes is complete in itself.

(3) Division into incomplete processes. Within the same industry there is a subdivision of the processes of labour. We may refer to Adam's Smith celebrated example of the manufacture of pins. The production of pins, as Adam Smith noted was divided into 18 operations—some one straightened out the wire, another prepared the head of the pin, yet another sharpened its point and so on.

(4) Geographical or Regional Division of labour. This means that different countries or different localities within the same country specialise in the production of particular commodities. In other words, territorial division of labour may be either international or national. Internationally we find that Britain specialises in the production of certain kinds of manufactured goods—cotton goods, steel goods and so on. America turns out manu-

factured goods and important raw materials of industries too. India's production of manufactured goods is limited, but she is an important raw-material producing country. Within a particular country also we find this form of division of labour. For instance in India, Bengal produces jute goods, while production of cotton goods is focalised mainly in Bombay, Ahmedabad and Sholapur. Sugar production is confined to a great extent to United Provinces and Bihar and so on. The causes which determine *location of industries in particular areas* (that is, territorial division of labour) are many and various.

(1) Sometimes natural advantages play a very important part. Bengal, for instance, enjoys an exceptional natural advantage in respect of the production of jute and this has led to the growth of the jute industry in this province. Nature has endowed England and Germany with enormous coal resources which entitle them to certain special industrial advantages.

(2) Sometimes however accidental and historical causes are the determining factors. Such historical causes led at one time to the decline of the indigenous cotton industry of India. But historical circumstances again brought about the revival of the cotton industry in India which now occupies an important place in the national economy. Accidental causes in the shape of the advantages of an early start have also determined localisation. In respect of the production of cotton goods Bengal's advantages are not negligible. The raw material can be cheaply imported, the advantages of a big market and of sufficient power (viz. coal) are there, but the simple fact

that other provinces of India had a long start over her places her at a great disadvantage.

**Advantages of Division of Labour** :—(1) *Gain in skill*—Continuous application to a particular business or to a particular operation in an industry greatly increases skill and efficiency.

(2) *Gain in adaptation*—A particular worker is assigned to the work for which he is best adapted or fitted. Naturally a worker can give of his best only when he is called upon to do the work for which he has a natural aptitude and ability.

(3) *Economy of time*—Time is saved because a worker devotes himself entirely to a particular work. He does not change from one work to another nor does he have to look about for his stools. Moreover the training period is shortened when competence has to be acquired in a special type of work.

(4) *Stimulus to invention*—By continuous concentration upon a particular operation the worker may hit upon an invention whereby the operation can be carried out by a machine.

(5) The division of labour also facilitates the use of machinery because the processes are simplified. A simple and easy operation requiring no exercise of the intelligence can be performed better by the machine than by the hand.

(6) *Special advantages of the territorial division of labour*. It makes possible the maximum utilisation of the natural advantages of a country.

**Limits of Division of Labour** :—Adam Smith had noted that division of labour is subject to two important limits. (1) It is limited by the extent of the market. Division of labour leads to a larger output. The larger output must find a proper market. Otherwise division of labour becomes unprofitable. (2) It is limited by the quantity of capital. Division of labour means employment of a large number of labourers with considerable mechanical equipment. This cannot be possible without sufficient capital.

Besides these limits division of labour has certain distinct disadvantages.

**Disadvantages of Division of Labour** :—(1) The worker's mind becomes dull and mechanical and his outlook on life becomes narrow. The independent craftsman who flourished before the advent of industrial capitalism felt an artistic and creative joy in his work. He had to display some originality and novelty in his work. But the modern industrial worker is tied down to a machine and his whole intellectual horizon is confined to the operations of the machine. Even Adam Smith was aware of this and he insisted that continuous pursuit of a particular work would result in mental torpor and stupefaction.

(2) Another dreadful result of the division of labour has been the growth of the evils of the large-scale factory. In the early stages of industrial development the state of affairs in the factories was such that it boggled all descrip-

tion. The atmosphere in which the workers had to work was absolutely soul-killing and dehumanising while the long hours of work simply re-introduced a new form of slavery. While these conditions have been improved by the method of elaborate factory legislation there still remains much scope for further improvement even in the most advanced countries of the world.

**Large-scale Production** :—Division of labour has led to large-scale production and the latter in its turn has encouraged further division of labour. Large-scale production involves uses of machinery and division of labour on a considerable scale.

**Advantages of Large-scale Production** :—(1) As Penson has said, "The advantages of the large-scale Industry may be summed up in one phrase—saving of productive effort." This means that the large-scale producer secures economies of various kinds. The economies fall under two heads :—(a) Those associated with the working of the business—buying of its raw materials, marketting of its goods etc. (b) Those connected with the attracting of customers—economies in advertisement.

(2) Large-scale production facilitates the utilisation of by-products. "A very large woollen factory finds it advantageous to utilise the fatty matter which is attached to the wool as it comes from the sheep's back. This grease.....goes to waste in a smaller establish-

ment, whereas the large mill, by putting in a plant for the special purpose of treating the grease, finds it a source of gain.”\*

(3) The large-scale producer can spend more money on research and experiment. This is easy to understand because the funds at his disposal are ample. His opportunities for reaping large profits are also considerable. Hence he can profitably invest more in research and experiment.

**Relative advantages and disadvantages of large-scale and small-scale production :—**—The advantages of the small-scale producer are the disadvantages of the large-scale producer. These may be noted as follows :—  
(1) In a small-scale factory “the master’s eye is everywhere.” Close and detailed supervision is possible.  
(2) There is a personal contact between the employers and the employees. This to some extent minimises the possibility of industrial disputes. (3) The small-scale producer can cater to the special requirements of individual customers. (4) The small-scale producer has advantages in respect of the artistic goods which cannot be turned out by machinery.

## CHAPTER IX

### Exchange and Value

**Barter Exchange vs. Money Exchange** :—What is exchange? It is a process of give-and-take. X gives Y a piece of cloth and takes from the latter a quantity of rice. This is exchange. Exchange is called barter exchange when goods are directly exchanged for goods as in the above example. In modern economic life however exchange takes place through the medium of money. X sells his piece of cloth for so much money, and Y sells his rice also for money. Money has greatly facilitated exchange.

**Difficulties of barter** : (1) **Absence of a double coincidence in wants** :—X and Y want to dispose of their respective goods as in the above example, but no direct exchange can take place between them if X does not want Y's rice and Y does not want X's cloth. X must possess what Y wants, and Y must possess what X wants. In other words there must be a double coincidence of wants.

(2) **Difficulties of Subdivision** :—X has a cow. He wants a seer of rice which Y possesses. The cow may be worth a great deal more than a seer of rice. X has nothing else to offer in exchange. If he gives the cow

he is a loser. On the other hand, he cannot divide up the cow to give only a portion of it. Thus difficulty of subdivision stands in the way of barter exchange.

**(3) There is no standard or measure of value**—How much rice would be exchanged for a piece of cloth? This is very difficult to estimate in the absence of a common measure of value.

**(4) There is no store of Value** :—Most goods are perishable so that those goods which cannot be disposed of in time will perish. They cannot be stored to satisfy further wants. But if there were money, those goods could be sold for money and this money could be stored

### The Theory of value

**How value or price is determined** :—We have seen in Chapter II what value means. Exchange gives rise to the problem of value. In the theory of value we discuss the question how value is determined. In modern times we are concerned with money exchange and not with barter exchange. Hence the theory of value resolves itself in fact into an inquiry as to how price is determined. For in actual life we are concerned not so much with value as with price.

Price is determined by a process of inter-action of demand and supply. Let us try to understand this in the light of the following example :

### How Price of Radio-sets is determined

Demand No. of Radio-sets.	Price Rs.	Supply No. of Radio-sets.
1000	500	16,000
3000	450	9,000
	( 5,500 )	5,500 )
6000	400	5,000
10,000	350	3,000
15,000	300	2,000

In the above table we find that when the price is per radio-set Rs 500 there is a demand for 1,000 radio-sets and a supply of 16,000. This means the price is high and therefore according to the laws of demand and supply demand is small while supply is large. When we consider the next line of the table we find price has dropped to Rs. 450 per radio-set and with the fall in price demand goes up while supply comes down. In the third line we find there is a further fall in price to Rs. 410 with a consequent increase in demand and decrease in supply. At this point we find that both demand and supply are equal. This is called a state of equilibrium. A price at this point is called the equilibrium price or the market price. So in a complete statement of the theory of value we would have to say that demand and supply interact on each other through price changes until they equate or are in equilibrium. Once they are in equilibrium the price settles down and becomes a stable price which is called the market price or equilibrium price. Why is

price stable at this point ? A glance at the above table will make this clear. When price is above Rs. 410, that is say, Rs.450, the demand is for 3000 radio-sets, while the supply is to the tune of 9000 radio-sets. Supply is thus much in excess of demand. The reason for this is that this is a tempting price for sellers while the price is too high for buyers. But since there are more radio-sets than there are buyers to purchase them, price must be reduced, for otherwise the whole supply cannot be disposed of. Hence price Rs. 450 is an unstable price. The position is such that price must come down. If again we look at the 4th line of the table we find that the price Rs.400 is too low so that demand is in excess of supply. This excess demand cannot be satisfied unless supply increases. But supply will not increase unless price rises. Hence price Rs. 400 is also an unstable price. Here also the position is such that the tendency would be towards an increase in price. The same is true of all the other prices except the price Rs. 410. Here demand and supply are in equilibrium so that there is no tendency towards either an increase or a decrease in price. This price is therefore a stable price.

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## CHAPTER X

### Money

**What is Money ?**—We have all a fairly clear idea of money. It plays a mighty role in our everyday life. The object of our economic efforts is to earn money. Indeed a craze for money is a common enough phenomenon in the world of to-day. And yet the very first thing that a student of Economics should learn is that 'money is not important in itself. Its importance lies in what it can purchase, viz. real goods or services. Man does not enjoy money but the goods or services that money can buy. Students of Economics must therefore try to 'pierce the monetary veil in which most business transactions are shrouded, and to see what is happening in terms of real goods and services.'''\*

**Definition of Money** :—Following Robertson we may define money as "anything which is widely accepted in payment for goods or in discharge of other kinds of business obligation." Mere definition however does not make the meaning of money quite clear. It has been said "money is what money does." This means in other words, that we can understand the meaning of money by considering its functions. These functions are primarily : (a) money is a medium of exchange ; (b) money is a standard or measure of value. Let us try

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\* Robertson, Money, P. 1.

to understand these two functions. Money is a medium of exchange means that instead of goods being directly exchanged for goods, they are exchanged through the medium of money. A wants to sell clothes and B to sell rice—there is no direct exchange of clothes for rice as in barter. Each sells for money, and each buys with money whatever he requires. Exchange is greatly facilitated by money, since the difficulties of barter are completely got over. (B) Money is a standard or measure of value. This means that the worth or importance of goods and services is expressed in terms of money. In an earlier chapter we noted how difficult it is to estimate the value of an object by considering its importance or worth in relation to that of other objects. This estimate of value becomes easy when we use money. We say that a ring is worth so many Rs. or As. and we at once know its value.

From the above two primary functions two other functions have been derived. These are called derivative functions :

(a) *Money is a store of value* :—A commodity may be perishable, so that the person possessing it is likely to sustain a loss if he cannot immediately consume it. If however he sells it for money he can store this money, and use it on a future occasion to buy things he may require.

(b) *Money is a standard of deferred payments* :—Credit transactions are greatly facilitated by money. A cash transaction is complete on the spot—but a credit transaction requires a payment in future. What is the

amount that must be paid in future? This is easily determined with reference to a fixed sum of money.

**Qualities of money** :—We have seen what the functions of money are. Now to discharge these functions properly money must possess certain important qualities. These qualities are (1) *Acceptability*—This means that money must be something which passes freely from hand to hand. It must be widely acceptable. (2) *Portability*—Money must be such that it can be easily carried about. It must possess great value in small bulk. (3) *Stability*—Money must have stable value in order to be a reliable storer of value, and a standard of deferred payments. (4) *Durability*—Money must be made of substance that lasts. If it is easily destroyed it cannot be a good storer of value. (5) *Homogeneity*—The monetary units must 'be of the same kind.' They must be uniform in quality and size. For example, one rupee must not be better than another rupee in buying things. (6) *Divisibility*—Money should be capable of being easily divided, so that smaller sums may be paid as easily as larger ones. (7) *Cognisability*—The substance of which money is made must not be easily confused with other substances. In short, money ought to be easily recognised. (8) *Malleability*—It should be made of metal that can be melted and worked up into varying shapes and forms.

**Forms of Money** :—(1) **Standard money**—Standard money has two important characteristics. (a) It is the

standard of all values—the values of goods and services as well as the values of the subsidiary coins. It is by virtue of this characteristic that this money is called the standard money. (b) Its face value is equal to its intrinsic value. In other words, the value fixed upon this money by law is equal to the value of the metal that this money contains. :

(2) **Token money** :—Its distinguishing feature is that its face value is greater than its intrinsic value. The subsidiary coins are token money. Paper money is also token money. It should however be noted that token money may assume the character of standard money by functioning as a standard of values, which is the more important characteristic of standard money. For instance the Indian rupee is token money because its face value is greater than its intrinsic value. But it is also a standard money since it functions as a standard of values in our country.

**The problem of the monetary standard (a) Monometallism vs. Bimetallism** :—One or two metals may enter into the composition of the standard money. In the first case we have the monometallic standard (either of gold or of silver or of any other metal) and in the second case we have the bimetallic standard (gold and silver or any other two metals circulating together). This distinction is based upon the number of metals of which the standard money is composed.

**(b) The Gold standard and the Gold Bullion standard** :—We may distinguish between two species of the gold standard—the full gold standard and the gold bullion standard. The full gold standard exists when gold standard coins are in circulation, e. g., in England before the Great War. Under the gold bullion standard gold coins are not in circulation. It is paper notes along with the subsidiary coins that circulate. The paper notes however are convertible into gold. This standard is as good as a gold standard and hence the characteristics of a gold standard have been described as follows :—

(1) Either gold circulates or the paper money is freely convertible into gold and *vice versa*.

(2) There are no restrictions on the export and import of gold. For the gold standard is essentially an international standard, i. e. it operates at the same time in a large number of countries. This facilitates both international trade and international loans. Indeed, the case for the gold standard is based mainly upon the advantages that flow from its international character.

(3) A sufficient gold reserve is maintained to ensure convertibility.

**(c) Paper or Free Standard** :—We may next refer to the monetary standard which has been called the free standard, the paper standard or independent monetary standard. In the case of this standard the paper money is completely divorced from gold or other metals so that it cannot be converted into gold. The paper standard has come into prominence since the last econo-

mic depression. The present monetary standard in England is of this variety. America also adopted a paper standard for a time after the onset of the economic depression, to say nothing of a host of other smaller countries who went off the gold standard. The question has been raised whether gold standard or paper standard is preferable. While we cannot go into the details of this technical discussion we may point out that some of the advantages of gold as an international standard are claimed by important international paper currencies of which the sterling is the most notable example. Paper standard has also been denounced on the ground that it has a tendency to go out of control since it is not subject to the severe limitations that are imposed on the gold standard in the shape of compulsory gold reserves. But recent experience appears to have demonstrated that the paper standard can under proper management be at least as stable as, if not more stable than, gold standard. "On the whole," says Gayer, "if there has been excess in the management of the free currencies it has been an excess of prudence and caution : they have been operated as if they were gold currencies."\*

**Legal Tender** :—Money that is certified by law and whose acceptance is compelled by law is legal tender. It must be accepted when it is offered in payment for goods, in discharge of debts or of other business obligations. Money can be either unlimited legal tender or

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\* Gayer, *Monetary Policy and Economic Stabilisation*, P. 176.

limited legal tender. In the former case any amount of the money offered must be accepted, for instance, sovereigns in England. Acceptance of limited legal tender can be enforced or compelled up to a certain limit only. In England, shillings are legal tender up to £ 2 only. Standard money is unlimited legal tender while token money is limited legal tender. The Indian rupee and half-rupee though token money are however unlimited legal tender.

**Coinage problems** :—Problems relating to the manufacture of coins. (1) *Free coinage*—When law permits coinage up to any amount coinage is said to be free. This may also be called unlimited coinage. (2) *Gratuitous coinage*—Coinage is said to be gratuitous when no charge has to be paid for coinage (3) *Brassage*—When a fee is paid for coinage which is exactly equal to the cost of coinage this fee is called brassage. (4) *Seigniorage*—When a fee is charged which is in excess of cost it is called seigniorage. In this case the currency authority makes a profit.

**Paper money** :—Paper money is more important than coins as circulating media in most civilised countries. Although its intrinsic value is little, a value is stamped upon it by law which makes it as good as metallic money. Its value depends upon a strict limitation in supply. To ensure this limitation in supply issue of paper notes is regulated by currency laws. Laws prescribe that it should be backed by gold or silver up to an adequate

amount. Any one who wants to dispose of his paper money and get some metallic money can do so by applying to the currency authority. *Paper money as described above is convertible paper money.* There can however be also *inconvertible paper money*. Such money is not convertible into gold or silver. The paper or free standard that we discussed above is an instance of inconvertible paper money.

**Advantages of Paper money**—(1) It has set free a large quantity of gold that was formerly in circulation. A part of gold thus released has been used for other purposes, e. g., for the purpose of purchasing goods from abroad. (2) It saves the loss due to wear and tear that the use of coins involves. (3) It is more economical because paper money can be produced with much less labour than metallic money. (4) It is more convenient to carry paper money.

**Disadvantages of Paper money**—(1) It has only national value. It cannot be used for international payments. (2) It may be made inconvertible and then overissued. This is regarded as the most serious drawback of paper money. A Government under pressure is likely to repeal the laws that restrict the issue of such paper. Overissue of this currency reduces considerably its value and sometimes it becomes almost worthless. This is called inflation—which means expansion of currency accompanied with excessive rise in prices. While discussing however the paper

standard we had occasion to note that the paper standard or inconvertible paper money does not necessarily lead to these results. This is essentially a matter of prudent and cautious management.

**Appreciation and Depreciation of money** :—Appreciation and depreciation of money relate to the rise and fall in the value of money. It should be remembered that money is not valued for its own sake, but for the things it buys, i. e. goods and services. Value of money therefore depends upon the prices of goods and services. When these prices fall the value of money is greater because the same quantity of money can buy more. *This is called appreciation.* When prices rise money can buy less. Its value falls. *This is called depreciation.*

**Gresham's Law** :—“When good money and bad money circulate together in a country the latter tends to drive the former out of circulation.” What is the explanation of this law ? Good money has more value outside circulation than inside it. Hence it is withdrawn from circulation, and profit is sought to be made out of it. It is withdrawn in the following ways :—

(1) **Hoarding**—Since good money has greater value, it is hoarded for future requirements.

(2) **Sale by weight** :—Since good money has greater value outside circulation, it is profitable to melt it and sell it by weight.

(3) **Foreign payment** :—Foreigners will accept the genuine good money, and not bad money. This also drives the good money out of circulation.

The law is however subject to two limitations :—  
(1) if the total quantity of the circulating money is less in proportion than the requirements of trade and industry, good money will not go out of circulation. (2) Sometimes bad money and not good money is driven out of circulation if it is strongly condemned by public opinion.

## CHAPTER XI

### Credit and Banking

**What is Credit?** :—Credit means belief or trust. When this belief or trust forms the basis of a business transaction it is called a credit transaction. Ordinarily, transactions take place on the basis of a mutual give-and-take. A person buys goods and gives money in return for them. Or, if there is barter exchange, goods are given for goods. If however someone gets from another some goods but does not give the latter in return either money or other goods, but promises to pay the full value for these goods in future we have a credit transaction. An analysis of a credit transaction shows that it consists of two distinct elements—confidence or faith and 'a period of time.' A credit transaction is not completed on the spot. It spreads over a period of time

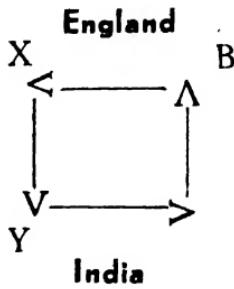
and becomes complete only when the promise to repay in future is fulfilled.

**Instruments of Credit** :—It will have become clear from the foregoing discussion that credit is essentially a process of borrowing and lending. Now in modern economic life this process of borrowing and lending takes place on a very wide and organised basis. To regularise the whole process the modern business world has adopted certain 'instruments of credit.' 'Instrument' as a legal term means a document. It is used here in this sense. Instruments of credit are therefore certain documents, which bear evidences of credit transactions—they are evidences, that is to say, of debts. They remain in the possession of the lender who may use them to demand payment in future. The following are the instruments of credit :—

(a) **Cheque** :—'A cheque is a document requesting a banker to pay the bearer a specified sum of money.' A transaction in which the cheque is used involves three parties—the person who draws the cheque, the banker upon whom the cheque is drawn and the person in whose favour the cheque is made out.

**Is Cheque money ?** :—We have seen in the previous chapter what the qualities of money are. Of these qualities the most important is 'general acceptability.' The cheque lacks this quality. It is not legal tender. Hence it is not regarded as money.

(b) **The Bill of Exchange** :—The bill of exchange is an instrument of credit which is of special importance for international payments. With the aid of this device payments for imports are made and payments for exports are received without gold being used for this purpose. Let us try to understand how the mechanism of the bill of exchange operates in the light of an example. For the sake of simplicity let us suppose trade takes place between two countries England and India.\* A merchant in England X imports from an Indian merchant Y raw cotton worth Rs. 1000. On the other hand, an Indian merchant A imports from an English merchant B cotton piecegoods valued at Rs. 1000. Thus X in England has a payment to make to Y in India to the tune of Rs. 1000. Likewise merchant A in India has a payment to make to the merchant B in England to the extent of Rs. 1000. Now through the medium of a bill of exchange the payments in the two cases can be so set off against each other that there would be no need for shipment of gold.



\* For the sake of simple exposition it is also supposed that the transactions take place in terms of Rs. only and no reference is made to £. s.

Let us look at the above figure. Y in India who is the creditor in relation to X in England who is the debtor draws a bill of exchange on X, and sends it on to the latter for acceptance. X having accepted this bill sends it back to Y who must hold it until the bill matures (the bill is a sight bill if the payment has to be made as soon as the drawee accepts it. It is a time bill when the payment has to be made at some future date—thirty days or sixty days or ninety days after). In the present example we are considering a 'time bill' which is more commonly used). In the meantime a transaction has taken place between A and B, and the former, i. e. the debtor in India will have to pay to B, i. e. the creditor in England. What A does is not to send gold but he simply goes straight to Y, secures the bill from him by paying its full value and then sends it on to B who realises the money from X when the date mentioned in the bill for payment arrives. Thus this document greatly facilitates payment between the two countries—the creditor in England as well as the creditor in India are duly paid their dues without the cost of sending gold being incurred. Such transactions with bills of exchange are going on on a very large scale between all countries of the world. Some banks specialise in this business (foreign exchange) and sale and purchase of bills take place through them.

**What is a bank and what are its functions ?—**A bank is defined as a dealer in credit. This means that a bank's functions are those of borrowing and lending. It borrows

money from some people and advances money to others. It is important to observe that banks play a vital role in modern economic life. Modern business and industrial enterprise require the application of capital on a very large scale. A great part of this capital is furnished by banks. The banks however do not themselves supply this capital. The banks serve as a connecting link between the investors and savers in the community. Those who have surplus funds at their disposal keep the same on deposit with the banks. The banks use the funds to advance money to those who are engaged in trade or industry, which is of course done in a cautious and careful manner in accordance with certain well-recognised principles of banking. Thus it is evident that borrowing and lending are two inseparable aspects of banking business.

**The Central Bank** :—The Central Bank does not aim at profit. Its functions are those of control and supervision over the other banks. The Central Bank is entrusted with the following important functions :—

- (1) It is the Bankers' Bank—Commercial and other banks apply to the Central Bank for relief in case of difficulty. The Central Bank in turn tries to exercise a restraining influence upon these banks.
- (2) The Central Bank is banker to the Government.
- (3) The Central Bank enjoys the monopoly of note-issue.

**Commercial Banks, Industrial Banks, etc. :—**The commercial banks are run for profit and they lend money for short periods.

There are many other types of banks. For instance there are industrial banks to advance long-term capital and to meet the special requirements of industries. There are agricultural banks e. g. the co-operative banks of our country and so on.

## CHAPTER XII

### Distribution

**What Distribution means :—**We have seen what production means. We have also seen how different factors co-operate in the work of production. As a result of the co-operation of the factors a total quantity of goods and services is produced. The problem of distribution is as to how this quantity is to be divided up among these factors. The total product is the outcome of the services rendered by the different factors. These factors must be rewarded for their services. The problem of distribution is to ascertain how these rewards are to be determined. Three questions are to be discussed in this connection :—

- (1) What is there to distribute ?
- (2) Among whom will the distribution take place ?
- (3) What will be the respective shares.

(1) It is to be noted that it is the National Dividend which is to be distributed. This National Dividend is a country's total quantity of goods and services produced in a particular year by all the factors of production. It is the total net product and should be distinguished sharply from the total gross product. In other words, it is the total product minus the portion of it which is required to replace the raw material, fuel, and to repair machineries, instruments, etc.—which are called costs of replacement. This means that the whole of the product cannot be consumed by the factors—a portion must be set apart for purposes of repair and renewal of machineries, replacement of raw materials etc. Otherwise there cannot be any further production. Total or gross product minus this quantity is called the net product. Hence National Dividend has been defined by Marshall as follows :—

The labour and capital of a country, acting on its natural resources, produce annually a certain *net aggregate* of commodities, material and immaterial, including services of all kinds. This is the true net annual income, or revenue, of the country, or the national dividend.

(2) Turning to the second question we may note that the distribution takes place among land, labour, capital and organisation—which are the different factors that contribute to the production of the national dividend. As Marshall puts it :—The National Dividend is at once the aggregate net product of, and the sole source of payment for, the different factors of production.

(3) The distribution takes place according to the principles of demand and supply. The theory of value has to be applied here. The relative importance of each factor is judged with reference to the demand for and supply of the factor. In other words, as there are prices for goods and services, so there are, as it were, prices for different factors of production.

### Rent

**What is Rent ?**—Rent in Economics is that portion of the National Dividend which goes to the factor land for its services in production.

**Ricardo's Theory of Rent** :—Ricardo's theory of rent forms to a great extent the foundation of the modern theory of rent. Before Ricardo the economists held that rent is the result of the bounty of Nature. Rent thus appeared to them to be a gift of nature. Ricardo goes however to the opposite extreme and says that rent is due to the niggardliness of nature. Ricardo points out that so long as good land is available in plenty there cannot be any rent. After the supply of the first grade land is exhausted it becomes necessary to have recourse to second grade land. As soon as the second grade land is cultivated the first grade land begins to bear a rent in relation to the second grade land. An example will make this clear. Suppose A is the first grade land. Capital and labour worth Rs. 10 are applied to this land. The amount of corn that is produced on this land is

40 mds. Now let us suppose that the supply of land A is exhausted so that land B, i. e., second grade land has to be brought under the plough. Now, since the second grade land is of worse quality than the first grade land or land A, to produce the same amount of corn as on land A more capital and labour must be applied. Let us suppose capital and labour worth Rs. 15 are applied to land B to produce 40 maunds of corn. Thus we find the cost of production on land B is greater than the cost of production on land A by Rs. 5. Now the price of the corn in the market must be such as to cover the cost of production of the second grade land for otherwise it would not be worth-while to cultivate this land at all. That is to say, the price will be equal to Rs. 15 for 40 maunds. The first grade land gets the benefit of this price, for in the market there can be only one ruling price. But as we have observed, the cost of production of the first grade land is less so that the owner of this land gets a surplus which is measured by the difference between the cost of production and price—Rs. 5 in this case. This surplus is according to Ricardo the economic rent.

Ricardo finally sums up his theory of rent in the following words :—“Rent is that portion of the produce of the earth which is paid to the landlord for the use of the original and indestructible powers of the soil.”

**Criticism of Ricardo's theory of rent** :—Ricardo's theory has been subjected to some adverse criticisms.

(1) Criticism has been directed against what has been called Ricardo's conception of the historical order of cultivation. We saw in the example that we considered above that according to Ricardo good land of first grade land is cultivated first and then the second grade land and so on. It has been pointed out that this is not always true.

(2) The rent that we find in actual life does not correspond to Ricardo's economic rent.

(3) It has further been pointed out that land does not possess either original or indestructible powers.

**Contract Rent** :—This is to be sharply distinguished from economic rent. The economic rent arises in the manner we have discussed above. Contract rent is the result of a contract between land-lords and tenants. The rent that we find in actual life is usually this contract rent. Many factors besides those we considered in connection with economic rent enter into the determination of this rent. For instance, custom, legislation and competition influence the determination of rent in India. But although such special factors cause the contract or actual rent to diverge from economic rent, on the whole the price paid for the use of land tends to approximate to the economic rent.

**Modern theory of rent** :—In its essentials the theory of rent as elaborated by Ricardo is accepted by modern economists. Rent is admitted to be a surplus arising from the differential qualities of various types of land.

This conception of rent as a surplus has however to be fitted into the theory of demand and value which governs remuneration of factors as we noted above. The basic facts to be noted in this connection are that the supply of land is severely limited and that land in any country consists of various grades and qualities. These peculiarities in the nature of the supply of land (viz. limited supply and differences in quality) together with the extent of the demand determine how far cultivation would proceed, which in turn determines rent. In the last analysis therefore rent or remuneration for land depends upon the interplay of the factors of demand and supply.

### Interest

**What is interest and how is it determined?**—Interest is the reward for the services rendered by capital to the productive process. As in the case of other factors so in the case of capital the reward is determined by the factors of demand and supply. As Penson puts it, "the interaction of the forces which influences borrowers and lenders results in a price for the service of capital—the rate of interest." The demand for capital comes from the borrowers while the supply comes from the lenders. Demand for capital is due to the fact that capital is essential for production. Hence there is readiness to pay a price for its use. On the other hand, the supply of capital depends upon saving which requires the sacrifice of present consumption. It is not quite correct to cha-

racterise this as 'abstinence' as some writers have done—for a rich man who saves cannot really be said to abstain from pleasure. He saves because he has an enormous surplus. On the other hand, it cannot be denied that saving means postponement of present consumption, and it involves what has been called 'waiting' for future consumption. As Prof. Pigou puts it :—"Generally speaking, everybody prefers present pleasures or satisfaction... to future pleasures and satisfactions of equal magnitude even when the latter are perfectly certain to occur."\* In this view a special inducement in the shape of interest must be offered in order to stimulate the desire to save. Considering the matter from the aspects of both demand and supply we thus find that there is bound to be a price for capital—a remuneration is sure to be paid for its services. The question arises : what would be the level of the price, or, what would be the rate of interest ? This is determined exactly in the manner in which the price of any other commodity is determined. We may recall to our minds how price is the result of a process of interaction of demand and supply. The same process works out here in a similar fashion.

### **Wages**

**What are wages ?**—The remuneration that goes to labour for its services in the work of production is called

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\* Pigou, Economics of Welfare, P. 25.

wages. Labour, we should remember, includes both manual and intellectual labour. Hence wages strictly speaking are not the reward for labourers only. All persons engaged in the work of production and receiving fixed pay may be said to receive wages. It is usual however to characterise the remuneration that goes to the higher grade of employees as salary.

**Money wages and Real wages** :—The remuneration that the workers receive in money is called the money wages. It is so many shillings or rupees per week. The actual amount of goods and services that the worker can get constitutes his real wages. Real wages include the facilities that are furnished free of cost by the employer.

**How wages are determined** :—Wages are also determined by the general relations of demand and supply. On the one hand, the services of labour are absolutely essential for production, and this gives rise to the demand for labour. There is demand for labour because labour is productive. On the other hand, as regards supply, it should be observed that this depends upon the number of labourers available. This is a question of the size of the working population. At one time some economists thought that wages of labourers tend to be just so much as is necessary to keep this population alive. The rate of wages in this view is more or less fixed so far as at least the aspect of supply is concerned. This process of reasoning has however been found since to be extremely fallacious. It im-

plies that if wages are increased this would increase the marriage rate and birth rate so that the number of labourers would increase gradually bringing down wages to a lower level. This is called the Iron Law of wages. The fallacy of this reasoning lies in the unwarranted assumption that increase in wages would necessarily increase the number of labourers. It is quite possible that the effect may be to increase their standard of living. It has been pointed out that "the enhanced prosperity (caused by higher wages) will, in the long run, bring about the development of a higher spiritual and cultural level in which more forethought is exercised about children and more satisfactions rival to that of having children come to the front."\* In this view an increase in wages may lead to a decrease in the number of labourers rather than the other way round. The significance of all this discussion is that wages on the supply side cannot be said to be rigidly determined by the number of labourers. The number of labourers itself depends upon wages. In other words, on the supply side wages are not only determined by the number of labourers but also by their standard of living.

### Profits

**What is Profit and how is it determined ?—**  
 Profit in actual life is a composite income—it is made up of diverse elements. Returns for capital, labour, land

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\*Pigou, Economics of Welfare, P. 101.

and organisation are all mixed up together. This is gross profit. When we subtract from this total all the elements except that which is the reward for risk-taking and organising we get the net profit. It is this net profit which is of interest to us in the present connection. It is the reward of the entrepreneur who takes the risks of business and who does the work of organisation. Profit is however an uncertain and fluctuating income. It is not an income that is fixed in advance as wages and interest and rent are. The entrepreneur is the person who brings together the different factors of production and contracts to pay their remunerations which are fixed beforehand. His own income is the residue that remains after the claims of all the other factors have been met from the proceeds of the joint product of the business. So in answer to the question how profit is determined we have therefore to point out that the laws of demand and supply are difficult to apply here. For, profit is not, like the other incomes, determined by any definite laws at all. Its size depends upon the fluctuations of business. Sometimes its amount is very large while at other times it may be even negative. Profit is not determined in a regular and definite way.

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## CHAPTER XIII

### International Trade

**What is International Trade ?**—In an earlier chapter we had occasion to refer to geographical division of labour. Such division of labour, we noted, takes place on an international scale as well as on a national scale. The international geographical division of labour naturally gives rise to international trade. Every country cannot produce all the things it requires—it produces only those in respect of which it has some advantages, and imports others from the different countries of the world. Economically the different countries of the world are thus interdependent. International trade thus means trade between nations.

**Advantages of international trade :**—(1) Based as international trade is on a geographical division of labour, it enables a country to devote itself entirely to the production of those commodities in respect of which it has the greatest natural advantages. Thus international trade enables a country to exploit to the full its natural resources.

(2) It brings within the reach of a country things that it cannot itself produce, and thus its people have an opportunity to satisfy a wider variety of wants and tastes.

(3) It considerably widens the market for the products of a particular industry. The latter can adopt division of labour and large-scale production on a much broader basis. This leads to more economical and scientific production.

(4) Last but not least international trade has an inestimable cultural value. It has brought the different countries of the world together, and has facilitated a commerce of ideas and thoughts along with the commerce of goods and services.

**Disadvantages:**—Disadvantages of international trade constitute the justification for protection. They are therefore discussed in detail in connection with the arguments for protection. We may however briefly consider them here.

(1) The most important argument that is levelled against international trade is that it makes a country dependent upon other countries. Such a country is placed at a considerable disadvantage when the supply from abroad is cut off.

(2) Sometimes a country may have natural advantages in respect of some industry, but on account of foreign competition may not be able to develop it.

(3) Instead of encouraging international amity foreign trade is often a prolific source of international strife and conflict.

**Free Trade vs. Protection:**—This issue turns essentially upon the relative advantages and disadvantages of

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**Free Trade vs. Protection:**—This issue turns essentially upon the relative advantages and disadvantages of

international trade. Free trade is advocated on the assumption that international trade has more advantages than disadvantages and hence trade between nations should be free and unhampered. The advantages of international trade on which free traders base themselves have been discussed above and should not be repeated here. But we may carefully examine some of the arguments for protection :—

(1) It leads to dependence on foreign countries. Disadvantages of this dependence are great in period of dislocations, e.g. a major economic crisis or a war. This has given rise to a craze for economic self-sufficiency in recent times. It is called economic autarchy. This end is sought to be achieved by an elaborate system of protective tariffs.

(2) The most important argument that is advanced in favour of protection is that which was developed for the first time by a German Economist Friedrich List. The gist of this argument is that all countries are not in the same stage of economic development. Some are advanced and industrially strong while others are backward and weak. There cannot be fair competition between them on a free trade basis. Hence the need of protection for the latter. This reasoning forms the basis of the famous infant industries argument. A country whose industries are weak and undeveloped must protect them against the competition of the powerful industries of other countries.

(3) Another important argument in favour of protection is that it leads to the diversification of industries. An excessive dependence on one industry is undesirable.

This is evident from the evil consequences of the dependence of our people upon a single industry like agriculture. By the method of protection it becomes possible to develop a number of industries which would not otherwise develop.

- Conclusion :—Protection is no doubt justified in some circumstances as a method of encouraging industrial development. Indeed, almost all the important industrial countries of the world—Britain, U. S. A., and Germany built up their industrial organisations behind the protective walls of high tariff. In fact, whatever be the theoretical justification for free and unrestricted international trade, in practice protection becomes sometimes necessary. At the same time it should be borne in mind that protection is a costly affair. When imports from abroad are cut off, the supply of the commodity affected is restricted with consequent increase in price. The benefit of the higher price goes to the producers of the protected industry, but the burden of protection has to be borne by consumers. For a country of poor consumers this burden is difficult to bear. For instance in India protective policy should be cautiously applied. As Prof. K. T. Shah puts it :—"the strongest plea of Free-Trade in India is that of cheapness, given the almost incredible poverty of the Indian people, the policy which claims cheapness to the consumer as the guiding maxim cannot but command a most respectful attention."



## CHAPTER XIV

### Public Finance

**What is Public Finance ?**—The word finance signifies 'money matters.' Public finance therefore relates to the monetary affairs of public authorities, that is, of Governments. In other words public finance is that branch of Economics which deals with the income and expenditure of Governments. Hence the study of public finance falls into two distinct parts—one relating to public income or public 'revenue' and the other relating to public expenditure. There is a third aspect of public finance, viz. Public Debt which would be dealt with separately.

**Public Revenue** :—Public revenue is derived from various sources :—(1) receipts from public property, e.g. public lands leased to tenants, (2) receipts from enterprises carried on by public authority. e. g. Post and Telegraphs in India and so on, (3) receipts from voluntary public loans, (4) *The most important source however from which public revenue is derived is taxes.*

**What is a tax ?**—“A tax is a compulsory charge imposed by a public authority” (Dalton). The essential characteristic of this charge is, as Prof. Taussig has put it, that the Government does not offer a direct *quid pro quo* or return for this. The tax proceeds are utilised for the general purposes of the Government.

**Adam Smith's canons of taxation** :—Adam Smith discussed four important principles of taxation. These are as follows :—

(1) *The Principle of Ability*—Each tax-payer should make a contribution to the expenses of the state according to his ability.

(2) *The Principle of Economy*—It should not take out of the pockets of the people more than what it brings into the exchequer.

(3) *The Principle of Convenience*—Due regard should be paid to the convenience of the tax-payer.

(4) *The Principle of Certainty*—Time of payment, manner of payment, quantity to be paid should be distinctly known to the taxpayer.

To these the following two principles are added by modern writers :—

(5) *Principle of elasticity or flexibility*—The tax must be elastic, i. e. can be made to yield more or less revenue according to necessity.

(6) *Principle of sufficiency*—Taxes must yield enough revenue to enable the Government to make both ends meet.

**Impact and incidence of a tax** :—The impact of a tax is upon the person from whom the tax is collected. The incidence is upon the person who ultimately pays the tax.

**Direct and Indirect Tax** :—A direct tax is really paid by the person on whom it is legally imposed; while an

indirect tax is imposed on one person but is paid by another. A tax is said to be direct when impact and incidence coincide—when impact and incidence are upon the same person. It is indirect when the impact is upon one person while the incidence is upon another. The income tax has to be paid by those who receive incomes. It cannot be passed on or shifted to some other person. That is to say, the same person has to pay the tax and to bear the actual burden of the tax—impact and incidence are upon the same person. The tax is direct. As an example of indirect taxation we may take a tax on the sale of a commodity, say, salt. In this case the impact is upon the sellers of salt, but if the sellers succeed in raising the price of salt by the amount of the tax then it is the buyers or consumers who pay the tax. The incidence is upon the latter. Thus impact, and incidence diverge and the tax is said to be indirect.

**Advantages of a direct tax :—**(1) It is a reliable measure of ability. It can be so adjusted as to suit different levels of income. It lends itself to the progressive method of taxation which is considered the most satisfactory method.

(2) It is less liable to evasion when it is collected at the source of incomes.

(3) It conforms to the principle of certainty laid down by Adam Smith. The taxpayer has a definite idea as to the time, manner and the amount of the tax to be paid.

**Disadvantages** :—(1) Direct taxes are not popular. People resent direct taxes because they feel that they have to pay the taxes.

(2) All direct taxes cannot be deducted at the source. There is much evasion of such taxes.

(3) Direct taxes cannot by themselves yield a sufficient amount of revenue. They must be supplemented by other forms of taxes.

**Advantages of an indirect tax** :—(1) It is more popular because it is not 'felt.'

(2) It is imposed on 'spending,' i. e. on expenditure and therefore saving is not discouraged.

(3) Poor persons who cannot be subjected to the burden of direct tax can pay indirect taxes. Such payment, however small, is thought to be necessary to induce in the masses a sense of political responsibility.

(4) It affords a broad basis of taxation. As we have noted direct taxes alone cannot be made to yield sufficient revenue. Hence a resort to indirect taxes becomes inevitable.

**Disadvantages of indirect tax** :—(1) The greatest disadvantage of the indirect tax is that it bears hard upon the poor. The reason for this is that the indirect tax if it is to yield substantial revenue cannot be imposed upon articles of luxury but should be imposed upon necessities which enter into the consumption of a wide class of men.

(2) Expenses of collection are sometimes very great.

(3) Its yield is somewhat uncertain—it falls much during the period of depression.

**The Problem of Justice or Equity in Taxation :—**The problem of justice or equity in taxation is a problem of great importance in public finance. Taxation imposes a burden upon the community. The problem of justice in taxation is as to how this burden is to be distributed among the different members of the community so that no injustice is done to any individual or class. In other words, it is a question of fair and equitable distribution of the burden of taxes. To secure this object many rival principles of taxation have been proposed—the cost of service principle, the principle of benefit and the principle of ability. The first principle means that taxes for any individual should be in proportion to the cost of services that the Government renders to him. This principle is difficult to apply in practice because it is impossible to calculate separately the costs for any individual. The benefit principle also breaks down on the same ground. It is difficult to get an accurate measure of the benefit received by any particular individual. Moreover, it leads to the impossible position that the poor people should be more heavily taxed than the rich because the poor people receive greater help from the state than the rich. There is a fair consensus of opinion among economists and writers on public finance that the principle of ability is best calculated to serve the ends of justice in taxation. The rich should contribute according to their abilities and so would the poor. This inevitably leads

to the proposition that the rich should be taxed more in proportion than the poor.

**Proportional Taxation vs. Progressive Taxation :—**

The principle of ability being accepted as the true and guiding principle of taxation the question arises : what method of taxation should be adopted to give practical effect to this principle ? Here the choice lies essentially between progressive taxation and proportional taxation. Proportional taxation means that taxes are imposed in proportion to different amounts of income. Thus if a person with an income of Rs. 100 is charged Rs. 5 then a person with Rs. 1000 should be charged Rs. 50. That is to say, the rate of the tax viz. Rs. 5% remains the same throughout the different levels of income. According to progressive taxation, however, this rate changes i. e. it is revised upwards as we ascend higher up the levels of income. While the rate is 5 per cent for an income of Rs. 100, it may be 10 per cent for an income of Rs. 1000 i. e. the total tax would amount to Rs. 100. The most widely accepted view is that progressive taxation is better calculated to give effect to the principle of ability than proportional taxation.

**Public Expenditure :—**The subject of public expenditure has received greater attention in recent times than before. Formerly it was regarded as a sound maxim of public finance that the state should take as little as possible from the citizens by way of taxes and spend as little as possible. Now however it is widely recognised

that there is an enormous scope for useful and beneficial public expenditure. Public expenditure has been classified in various ways. It is more instructive to consider the various objects on which public income is spent. A rough catalogue of the items of public expenditure may be presented here :—(a) *Military charges*—maintenance of the police and army in peace and war. (b) *Civil charges*—maintenance of the machinery of the Government, administration of justice etc. (c) *Debt charges*. (d) *Industrial and commercial charges*—maintenance of consuls abroad, supply of currency, conduct of postal services, etc. (e) *The social expenditure*. This is assuming increasing importance in modern times. It means expenditure on health, education, old age pension, poor relief, provision for unemployment etc.

**Public Debt** :—Public debt is dealt with separately in public finance. It however belongs in a sense to the domains of both public income and expenditure. The loans floated by the Government are a source of income to it. Thus public debt is a source of public income. But public debt involves expenditure as well when the interest on, or the principal of, the debt has to be paid. In this sense public debt is an object of public expenditure.

In a general way it may be said that for ordinary expenditure the Government should depend upon taxes but for special and extraordinary expenditure it may have recourse to loans. For instance for the purposes of a war or for the purposes of productive works requiring large

capital expenditure the Government may borrow money either at home or abroad.

**Sinking Fund** :—It is a device for facilitating the repayment of public debt. It is a debt repayment fund built out of contributions from the public revenue. A Government under stress of financial difficulties has a tendency to squander away the reserves in the fund. This is called the 'raiding' of the sinking fund.

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PART II

# INDIAN ECONOMICS



# INDIAN ECONOMICS

## CHAPTER I

### Introduction

We have studied in the preceding part of this book the principles of Economics. This was a theoretical study. We shall now enter upon a study of the practical problems and the realities of the economic life of our country. The principles that we have discussed above will throw much light upon these facts and actualities and these facts in their turn will help us to understand and appreciate the principles better. It should be borne in mind that the purpose of economic studies is intensely practical. The economist does not merely indulge in 'intellectual gymnastic' but endeavours to find out "instruments for the bettering of human ills." In this view after a theoretical discussion the study of the economic problems and conditions of our country is at once interesting and useful.

**India and her natural environment** :—As a preliminary to the study of the economic conditions of our country it is necessary to deal with its geographical features because the economic life of every country is shaped to a great

extent by the natural environment. Nature has indeed lavished her gifts on this country with a very liberal hand as we shall have occasion to observe at every stage of our discussions. As regards her geography the first thing that strikes us is that she is compact and self-contained, indeed, a whole world in herself. Further, her frontiers act as her natural barriers, her soil is for the most part wonderfully fertile, her natural resources are enormous, and she has a large population. Yet in the midst of all these favourable conditions her children are steeped in great poverty and misery. This is the most important paradox that confronts us at the threshold of our subject.

**Geographical position** :—India occupies a central position in the Eastern Hemisphere, and is at the top of the Indian Ocean. This convenient geographical position furnishes her with enviable commercial facilities. Her trade routes run in all directions. On the west she can trade with Europe and the British Isles, on the south-west with Africa, on the south with Ceylon, on the south-east with Australia and Far East, and even on the North her merchandise overflows to the land territories beyond the Hindu Kush and the Himalayas through the mountain passes. It is small wonder in this view that India at one time was a leading commercial country of the world.

**Size and boundaries** :—In area India is about 1,800,000 square miles. She is 2000 miles from north

to south, and 2,500 miles from east to west. Her enormous size is more vividly realised when we remember that she is equal to the whole of Continental Europe minus Russia. She is twenty times the size of Great Britain, and forms one-sixth of the whole British Empire.

India has remarkable natural boundaries—land boundaries and sea boundaries. On the north there are the Himalaya Mountains, and on the east the Assam and Burmese Mountains. The sea boundaries are the Bay of Bengal on the east, and the Arabian Sea on the west.

India has a very long coast line of about 5000 miles. A striking feature of this coast line is its lack of indentations. This accounts for the deficiency of natural harbours in India.

**Natural divisions** :—India has three well-defined parts :—(a) The mountain region of the north—(b) The great river-plain of the Indus, Ganges and Brahmaputra. (c) The Peninsular region.\*

**Climate and Seasons** :—Wide variations in climate are noticed in the different parts of India. In the Peninsular region the climate is more or less equable. In the northern part of India extremes of cold and heat are experienced. In this view it is impossible to make any gene-

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\* From the point of view of elevation India has been divided into two main regions viz., (1) The Region of plains, (2) The Region of table lands. See paper by B. N. Ganguli in Economic Problems of Modern India (Ed. R. K. Mukherjee) London, 1939.

ral statement regarding the climate of the country as a whole, but it may be broadly described as semi-tropical.

The seasons of India can be broadly divided into two parts—the winter season and the hot season. The hot season may further be subdivided into a hot wet season and a hot dry season.

**Rainfall in India : Monsoons** :—The rainfall in India occurs in more or less definite periods of a year. The rainfall depends upon the monsoons. (The word monsoon is derived from the Arabic word *mansim* which means a season). The monsoons visit India in two distinct waves. One is known as the South-West Monsoon and the other is known as the North-East Monsoon. The period of South-West Monsoon extends from May to October while that of North-East Monsoon extends from October to December. The advent of the monsoons is determined by certain physical factors. As regards South-West Monsoon, during summer the air on land becomes hot and light on account of the heat of the sun. The cold and moisture-laden air blowing from the sea displaces the hot and light air of the land. A continuous sea breeze from the South-West blows from May to October. This is the South-West or Summer Monsoon. It sweeps over India in two branches—the Arabian Sea branch and the Bay of Bengal branch. The Arabian sea branch crosses over the Western coast of India, travels across the Peninsula and the Gangetic plain giving abundant rain to both these

areas. The Bay of Bengal branch sweeps over Burma and Assam giving copious rain to these places. As it moves onward to the North, it is flung back by the mountain ranges of the Himalayas so that it turns towards the West, reunites with the Arabian sea branch, and then gives rain in varying amounts to the whole area from Bengal to the Punjab.

The North-East or Winter Monsoon owes its origin to the fact that during winter the air on land becomes cool relatively to the air on the sea so that a breeze begins to blow from the land towards the sea. It originates in Central Asia and blows from the north-east of India and hence it is called the North-East Monsoon. This wind is generally dry but it picks up some moisture as it crosses the snow-capped ridge of the Himalayas. It blows from October to December and it brings rain chiefly to Madras and also to Hyderabad state, Berar, Central Provinces and the Punjab.

**Importance of the rainfall** :—The rainfall is of supreme importance in an agricultural country like India. The following points may be noted :—(1) The monsoons determine the sowing of crops. One set of crops is sown in June and reaped in autumn. This covers the period of the South-West monsoon. These are called the kharif crops (rice, cotton etc.). Another set of crops is sown in September and reaped in January. This roughly covers the period of the North-East monsoon. These are called the rabi crops (e. g. wheat, barley, linseed etc.).

(2) Rainfall determines the purchasing power in the hands of the agriculturists and thereby exercises an all-pervasive influence on the national economy of the country as a whole. If there is good rain, there are good crops and the agriculturists by selling them provide themselves with cash wherewith they can purchase various commodities that they require. Forming as they do the dominant portion of the community this demand for various articles of consumption has a considerable stimulating effect upon the industries which cater to this demand. In this way the prosperity of the manufacturing industries is bound up with the fortunes of agriculture. Reactions and repercussions of agriculture extend to other departments of our economic life as well. The influence of the monsoons is so great and widespread that even the budget of India has been characterised as a gamble in rain.

(3) The rainfall has also affected the density of population in India. Regions of abundant rainfall, like Bengal, are very thickly populated. This point however cannot be pressed too far. Lower Burma with a heavy rainfall has a sparse population.

**The Social Structure** :—Two most important social institutions in India are the caste system and the joint-family system. We may consider each separately.

(1) **The Caste System** :—Caste is described as the foundation of the Hindu social fabric. Its origins are

obscure. The original Sanskrit word for caste, *rarna*, means colour, and it is thought that its origin was due to the desire of the fairer Aryan people who came to India to impose social barriers between themselves and the dark-skinned races who originally lived here. The system is a characteristic product of Brahminism, and perhaps its most outstanding feature has been the dominating influence of the Brahmins.

*(a) Its merits*—(i) Originally it was based upon division of labour which made for economic skill and efficiency.

(ii) Efficiency was also increased because every son was brought up to the trade of his father. The value of transmitted skill need hardly be emphasised.

(iii) There was a great social gain because under the caste system a person was assigned to the work for which he was best fitted by temperament and aptitude. In its origin the caste system was not of a rigid character. Passage from one caste to another was freely allowed.

(iv) The caste system was the basis of a happy social life. The caste organisation was to the Hindu his club, his trade union, his benefit society and his philanthropic society.

*(b) Its Demerits*—In course of time the caste system became more and more rigid and led to many social evils.\*

\* Sociological researches however indicate\* that the caste-system has not been the rigid social structure that it is often made out to be. Dr. Radha Kamal Mukherjee speaks of the plasticity of Hinduism and caste-organisation which has enabled the primitive tribes to

(i) It stood in the way of adjusting function to ability or aptitude. The son of a Brahmin did not necessarily possess an aptitude for scholarship and learning nor was a Sudra necessarily incapable of culture and refinement. In this way a person's occupation or function was sometimes absolutely inconsistent with his aptitude.

(ii) It raised barriers which militated against the growth of a sense of solidarity and unity among the people as a whole.

(iii) It gave rise to inequality. Persons belonging to the so-called higher castes began to look down upon the members of the lower castes. In this view, the caste-system is thoroughly anti-democratic.

(iv) It encouraged an attitude of contempt and despise towards manual labour. Dignity of labour ceased to be appreciated.

(v) It led to racial degeneration to some extent. Modern researches show that combination of different racial stocks, within limits, adds to the vigour of a race. Caste-system is an obstacle to such inter-mingling of racial strains.

**Conclusion** :—The caste-system has had its day and is now in the process of dissolution. A society is some-

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gain admittance into the Hindu Society, while caste itself, internally speaking, has not been slow to respond to uplift and occupational change, (Economic Problems of Modern India P. 45). Dr. Benoy Kumar Sarkar says,—"From the 'aboriginal' to the 'high caste' Hindu the gap may be great but the bridges are sure, although slow, and quite solid." (Sociology of Population, p. 72).

thing living, and ever-growing, so that if a rigid framework like the caste-system is imposed upon it, its development and growth is greatly hampered. Moreover, it is important to remember that modern conditions are so complex and varied that a simple division of labour on the basis of the caste-system is completely out of place in the present age. Lastly, from the point of view of unity and cohesion among the Hindus it is desirable, nay imperative, that the caste-system should go.

**II The Joint-family System** :—Normally a Hindu family is joint and undivided. It is joint not only in property, but also in food and worship.

**Its merits** (1) It makes for peace and harmony in domestic life by placing the entire family under the strict control of the eldest male member of the family.

(2) It assures at least a bare minimum of necessities (subsistence) to every member of the family.

(3) Economies are effected because costs of separate establishments are avoided.

**Defects** :—(1) There is a disproportion between reward and effort. A member of the family who works hard and earns a substantial income does not enjoy the full benefit of this income but has to store it along with others.

(2) It encourages idleness. Since everyone is assured a bare subsistence, the impetus to labour and exertion becomes somewhat less.

(3) It is opposed to the development of individuality. The rigid control which is exercised by the head of the family deadens initiative, and the spirit of enterprise.

**Conclusion :—**Like the caste-system the joint family system also is fast breaking down.\* Individualistic tendencies have been let loose as a result of the importation of Western ideas and manners into our country and this has undermined the very foundations of the joint family system. Moreover, under modern conditions of life, it has to a great extent lost its justification.

**Population :—**India has a very large population. According to the Census of 1931 India has a population of 352,837,778. While India is only one-half of the total area of U. S. A., her population is three times as large. The Census of 1941 for which preparations are in progress is expected to show a further increase in population to about 400 millions.

**Density of Population :—**Density of population is measured with reference to the number of persons in a country per square mile of its territory. In India as a whole the density is 195 persons per square mile. This density however varies from province to province being very high in Bengal, and lowest in Baluchistan. The

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\* Dr. R. K. Mukherjee points out that economic causes are disintegrating the joint family in the cities, but it still holds its own to a great extent in the villages. (Economic Problems of Modern India, p. 59).

density of population depends upon a number of factors. These are :—

(a) *Rainfall*—A place with an adequate rainfall can support a large population.\* (b) *Configuration of the Earth*—A level surface being suitable for human habitation and agriculture can support a large population. (c) *Nature of the soil*—Fertile soils are naturally favourable for the growth of population.

**Birth Rate and Death Rate** :—The growth or decline of population depends upon the birth rate, death rate, immigration and emigration. The last two factors do not play any important part now. In India both the birth rate and the death rate are very high. The birth rate is about 36 per thousand and the death rate is 26 per thousand. Much has been made of the high birth rate in India but it is important to remember that the Indian birth rate compares favourably with the birth rates of a number of countries which are politically and economically very advanced. Indian death rate also though very high is not unique.† Moreover it is important to note

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\* "Density of the population varies largely according to the rainfall and it may here be pointed out that in the densest areas—those of Cochin, of Eastern Bengal, North-west of the United Provinces and Bihar, the rainfall is heavier than in any other part of India except Assam"—Census Report (1931), p. 4.

† Certain exaggerated notions regarding the high birth rate and high death rate of India have been found to be extremely fallacious in the light of international vital statistics. Dr. Benoy Kumar Sarkar has done very useful work in this connexion. See his book *Sociology*

that India's birth rate and death rate have been declining.\*

**The Population Problem** :—There has been much debate in our country in regard to the question whether India is overpopulated. While considering this problem it has been customary for writers on the population question in India (e. g. Wattal and Ranadive) to direct attention mainly to the question of food production. The gist of their argument is that the people of India are already on the verge of scarcity so that further increase in population is bound to lead to an insufficiency of the food supply. Many writers of distinction have concurred in this view.† It is however important to remember that it is not quite safe to draw any rigid conclusions regarding this matter. The increase of population need not necessarily be limited to the food production. The surplus population that cannot be maintained by land may be

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of Population (1936). See also Population Studies of Benoy Sarkar by Sachindra Nath Dutt. M. A.

\* Cf. "declining birth rate is found to be an established fact in Indian demography" "Decline in death-rate is very sharp in case of India." (Population Studies, pp. 5 and 10).

† Dr. Radhakamal Mukherjee writes,—"It is accordingly clearly evident that the food position of India is gradually becoming worse both with reference to mouths to feed and also with reference to the nutritive quality of the cereals." (Food Planning for Four Hundred Millions, P. 21). Cf. also Prof. Carr-Saunders view,—"India, or in any case large areas of it is overpopulated." (World Population. p. 275).

absorbed in industries, so that industrial development may meet the difficulties of a growing population. Furthermore, it should be noticed that conditions in India differ vitally from those of the West so that we cannot argue from the latter to the former.\* "Generally speaking, the maximum density of the agricultural population can be far greater in India than in Europe, not only on account of the greater fertility of the land but on account of the diminution in the absolute necessities of life corresponding to a less rigorous climate."† In this view, the hard-and-fast conclusion viz., that India is overpopulated cannot be accepted. No doubt many of the signs of overpopulation are present in India, viz., poverty, high death rate, etc. but these are due to a great extent to social and occupational maladjustments.‡ The remedies for overpopulation that have been often suggested are also open to objection. Great insistence has been laid on limitation of numbers through birth-control.

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\* Cf. Raja and Russell's views expressed in the INDIAN JOURNAL OF MEDICAL RESEARCH, July, 1935. They refer to 'recent studies in U. S. A.' on the strength of which they maintain per capita land in India is utterly inadequate to furnish a liberal diet. But "the recent studies" refer to conditions in U. S. A. and have no relevance to Indian conditions.

† Census Report (1931) p. 31.

‡ Cf. Dr. Sarker's views.—"It should appear that the scares about an absolute over-population of India belong for the time being almost to the sphere of such millenial world-calamities (arising from the cooling of the sun or from the collision between planets). On the other hand, a relative overpopulation such as may arise from a

The great effect of an advance in culture through a rise in the standards of living on the quantity of population has been much ignored.

**The mineral resources of India :—Coal**—Coal is the most important mineral of India. The importance of a sufficient coal reserve for the industrial development of a country cannot be exaggerated. It has been rightly said that coal is the basis of industrial civilisation. Two thirds of all the power generated in the world come from coal. In recent times it has been substituted to some extent by petroleum and electricity. Nevertheless its importance is still very great. The development of world's leading industrial countries—the United Kingdom, Germany, America and recently Russia proceeded hand in hand with the opening up of their coal reserves. As a producer of coal India's position is second to that of United Kingdom in the British Commonwealth and is ninth in the world. The coal deposits in India are unevenly distributed. Bihar and Bengal which comprise mainly the Jharia and Raniganj coalfields produce nearly 80 p.c. of the total British Indian coal output. The deficiency of coal is marked in the Peninsula, especially in Madras. Bombay can make up her deficiency by drawing hydro-electric power from the Western Ghats.

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temporary absence of balance between the present number of population and food supply e. g. from a disproportion caused by complications in the societal organisation is not remarkable and indeed deserves always careful analysis at every step." (Sociology of Population, P. 41).

An important problem regarding coal which has assumed great importance in recent times is that of conservation. It has been estimated that at the end of 1932 the total coal reserves were 60,000 million tons of which only 20,000 million tons were workable. Of the latter figure only 5,000 million tons were of good quality. The Coal Mining Committee which reported in 1937 pointed out that it might be conceded that the reserves of coal of inferior quality are practically unlimited in India, but coal of good quality especially the variety which is required for the purposes of iron smelting is severely limited in quantity. Against this limited coal deposits India has abundant deposits of Iron ore. In this view if a strict policy of coal conservation is not followed the industrial development of the country would be retarded on account of shortage of coal.\*

**Iron** :—India occupies ninth place in the world in respect of the production of iron. Iron which is the commonest and cheapest metal, is the basic metal for our machine age. The modern Western civilisation as well as the destructive machineries of modern armies depend on the heavy industries which are based on iron production. France, U.S.A., U.S.S.R., United Kingdom and Sweden are the most important iron producers of the world. India also has rich iron ore deposits and with the development of the Iron

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\* See Report of the Coal Mining Committee (1937) Chapter VI.

and Steel Industry the deposits are being exploited more and more. The iron deposits in India occur mainly in Singbhum, Keonjhar and Maurbhanj states of Bihar and Orissa.

**Manganese** :—Manganese is indispensable for the manufacture of steel. India produces 64 p. c. of world's total output. The consumption of manganese by the India iron and steel industries is steadily increasing. Manganese is mainly found in Central Provinces, Madras, Bombay and Mysore.

**Petroleum** :—In 1938 India produced only 0·50 p. c. of world's total petroleum output. For her requirements of Petroleum India has to depend greatly upon imports from Burma (and from other countries), which has been separated from India and which is an important producer of petroleum. In India proper petroleum is available in Baluchistan, and to some extent in Assam.

**Gold** :—India's production of gold is only 3 p. c. of the world's total output. Nearly 98 p. c. of India's gold production comes from the Kolar gold fields in Mysore.

**Salt** :—Most of the salt required in the country is produced internally. Salt is produced mainly from the evaporation of sea-water on the coast of Bombay and Madras and from the rock-salt obtained from the Salt Range and Kohat Mines in the Punjab.

**Mica** :—India is the most important producer of Mica in the world. The chief mica-producing districts in India are Hazaribagh, Gaya, Nellore and Tonk state. Many other important minerals, i. e. lead, copper, tin etc. are also produced in India.

• **Forests of India** :—Among the natural resources of India we must consider her forest-wealth. The utility of forests in the national economy has now come to be definitely recognised in India. Forests have been described as the hand-maiden of agriculture "They provide the cultivator with fodder for his livestock, and with fuel and timber for his domestic consumption. The part which forests play in the protection of soils liable to erosion has also an important agricultural bearing."\* The burning of cowdung cakes is a practice which prevails in many parts of India. This is harmful as cowdung is essential for manuring purposes. In order to stop this practice however it is necessary to furnish the agriculturists with alternative fuel. The forests may provide the agriculturists with the necessary fuel and timber.

Forests have great industrial importance as well. They furnish important raw materials for industries such as tanning materials, essential oils, turpentine etc. Industries connected with the forests give employment to large numbers of men. Forests also exercise a moderating influence upon climate. Last but not least forests

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\* Agricultural Commission Report (abridged) P. 25.

have a cultural value since they have a great appeal to the æsthetic taste of man. In view of all these considerations the conservation of forests has assumed great importance in recent times. It has been realised that forests must be saved from wanton destruction by man. Since 1864 a Forest Department under an Inspector-General has been in charge of forest administration. For purposes of control and administration forests are classified into (a) Reserved, (b) Protected and (c) Unclassed forests.

The Agricultural Commission made some important recommendations regarding forests :—(1) Forests should be reclassified as follows (a) areas which are suitable for the growth of timber and fuel, (b) areas which are desirable on physical and climatic grounds, (c) areas which are suitable for development as fodder reserves or grazing grounds, (d) areas which may be devoted to ordinary cultivation. The Commission also recommended management of forests by the people and for the people of the villages.

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## CHAPTER II

### The Agricultural Wealth of India

**The chief crops:** (A) **Food crops:** (i) **Rice** :— India is an important rice producing country in the world, being second only to China. The total yields of India and Burma together approximate to that of China. About 30 p. c. of the agricultural area in India is devoted to the production of rice. Before her separation from Burma India was one of the largest exporters of rice in the world. India proper is now a large importing country. Burma accounts for the bulk of her imports. The important rice-producing provinces are the following : Bengal, Bihar, Orissa and Madras. Rice is also grown in U. P., Central Provinces and Bombay. "It may be pointed out that rice is not a commercial crop in India, nearly 60 p. c. of the crop being retained by the growers themselves for consumption and of the remaining 40 p. c. only a portion finds its way to the wholesale markets."\* We may also note in this connection that in Bengal the price-problem relating to rice and paddy has come into great prominence recently. The prices of rice and paddy have fallen very low in comparison with other agricultural commodities and a Paddy and Rice Enquiry Committee was appointed recently to investigate the problem of improving the price of paddy and rice." The Committee which reported in 1939 found that the fall in price was due mainly to (1) decline in the

export of rice from Bengal, and (2) existence of huge exportable surplus in Burma which is largely imported into our province. The Committee made three important recommendations :—(1) attempts should be made to increase export, (2) remission of the export duty on rice if budgetary conditions are favourable, (3) a duty on imports from Burma in excess of a prescribed quota.

**(ii) Wheat** :—One-tenth of the world's supply of wheat is produced in India. It covers about 10 p. c. of the total cultivated area. Wheat is produced mainly in the Pur.jab, U. P., Central India States, Bombay, Bihar and Orissa. The first two are the most important wheat producing provinces in India. India exported 460 thousand tons of wheat in 1937-38, and 279 thousand tons of wheat in 1938-39. In the latter part of the last year Indian wheat was excluded from the world market as a bumper crop from America and Canada flooded the world market. Not only exports stopped but India began to import wheat from October 1938. An import duty on wheat was imposed in December 1938.

**(iii) Barley** .—It is produced mainly in the United Provinces, Bihar and Orissa. The area devoted to the crop in 1937-38 was 6·2 million acres.

**(iv) Pulses** :—They are produced chiefly in the United Provinces, Punjab, Bombay, Central Provinces and Bengal.

(v) **Sugarcane** :—Physical conditions in India are admirably suited for the production of sugarcane. Sugarcane is the raw material for the production of sugar, and *gur*. Even now major part of the sugarcane produced in the country is devoted to the production of *gur*.<sup>†</sup> The quantity of *gur* produced in India is now nearly 4 times as big as the quantity of refined sugar. The sugar industry has however been rapidly developing under protection and is consuming increasing quantities of sugarcane. Sugar industry is mainly localised in U. P. and Bihar at present—indeed there has been over-development of the industry in these two provinces. "South India, including Mysore, lies entirely within the tropics, and is from the point of view of climate much more favourably situated for the growth of sugarcane than other parts of India."<sup>\*</sup> Bengal also has considerable advantages in respect of the production of sugarcane and the prospects for the growth of the industry in this province also are very favourable.

(B) **Non-food crops** : (a) **Fibres—Cotton and Jute** .  
 (i) **Cotton** :—India is one of the most important cotton producing countries in the world being second only to

<sup>†</sup> Regarding U. P. "it is pointed out that although the province had 73 sugar factories, they took up only 17½ of the cane crop while 6·8% was used for making khandsari sugar, about 8% for seed and chewing, and the balance of about 68% was converted into Gur,"—The Indian Sugar Industry (1939 Annual) by M. P. Gandhi,

\* Lokanathan—Industrial Organisation in India, P. 72.

America. Cotton is grown practically all over India. As regards short staple cotton India produces not merely enough for her own requirements but is the chief exporting country in the world. But as Indian mills in recent years have been increasing the production of finer types of piece-goods which were formerly imported, the imports of foreign cotton of long staple variety have been rising. Total receipts of foreign cotton into British India amounted to 753,000 bales during 1937-38. It may also be noted in this connection that Indian mills are increasing their consumption of raw cotton. In 1926 the number of bales of cotton consumed—400 lbs each—was 1,983,000. In 1937-38, it was 2,866,577.

(ii) **Jute** :—India has a monopoly of the production of Jute. It is grown mainly in Bengal and to some extent also in Bihar and Orissa. Cultivation of Jute is restricted to less than 10 p. c. of the total net cropped area in our province, but its importance lies in the fact that it is a *money crop*. It is called a *money crop* or *cash crop* because it is not consumed directly by agriculturists as a large part of rice is done, but is sold for money. This is the small quantity of cash in the hands of the agriculturists wherewith they can meet their monetary obligations, and wherewith they can buy non-agricultural commodities and services. As in the case of rice, so in the case of Jute the price-problem has assumed great importance recently in Bengal. A Jute Enquiry Committee was recently appointed to consider the following matters :—Regulation of production of Jute, the mar-

keting of Jute, the improvement of the price of Jute: fixation of the price of Jute. The Committee pointed out: "The fundamental problem of Jute is the problem of Jute-prices, with special emphasis on the price of raw Jute."\* The Committee recommended compulsory regulation of cultivation in accordance with the demand for the fibre. A bill was passed by the Bengal Legislature in 1940 to give effect to this recommendation. The bill however did not come into effect in 1940 but will be put into force in 1941. In the current Jute season the problem of over-production of Jute has assumed a serious character.

(b) **Oilseeds** :—India is an important producer of oilseeds, which comprise linseed, groundnut, castor seed, etc. Linseed is of great importance. It is meant for export either in the form of seed or oil. It is grown principally in U. P., Bihar and Orissa, and the Central Provinces. Groundnut is grown extensively all over the country. It is popular on account of its nourishing dietary value. It is also exported on a large scale and is one of India's valued cash crops.

(c) **Tobacco** :—Tobacco is an important crop of the country. India produces about 33 p. c. of the total output of tobacco in the world. Only about 2 p. c. of the quantity produced is exported.

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\* Report, P. 11,

(d) **Tea** :--The larger part of India's production of tea is exported. In 1938-39 total export of tea by sea amounted to 350 million lbs. The largest amount of tea is produced in Assam. North Bengal is also an important centre of the production of tea. It is also grown in varying quantities in South India and other important provinces of the country. The tea industry of the country is mainly under European control. The export of tea is now subject to the control of an International Committee.

(e) **Coffee**--It is grown chiefly in Mysore, Madras, Coorg, Cochin, and Travancore.

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## CHAPTER III

### Agriculture and its Problems

#### **Importance of Agriculture in National Economy —**

Agriculture is the main industry of the country. The importance of agriculture in the national economy has increased rather than diminished in course of time. In 1891 the percentage of population supported by land was 61 while in 1931 it was 73. Since such a large percentage of the population depends upon agriculture, the economic prosperity of the country as a whole is closely bound up with the ups and downs of agriculture. The purchasing power in the hands of the agriculturists determines the size of the demand for the products of the manufacturing industries. The per capita income of the Indian agriculturists is extremely low, so that unless the purchasing power of more than 70% of India's population is increased there cannot be a large internal market for industrial goods. Industrial development of the country is thus dependent to a great extent upon prosperous agriculture. It is however to be noted that our dependence on agriculture has proceeded too far so that a much larger number of people are employed in it than can be reasonably maintained by it. The poverty of our country is not a little due to this factor. In this view, it is essential to relieve the pressure on land in order to restore a balance and equilibrium in the economic organisation of the country.

**Backwardness of Indian Agriculture** :—Agriculture in India is carried on in an inefficient and even primitive manner. For this reason the yield of crop per acre of land is very low in India in comparison with the yield in other countries.\* The most vital problem of Indian agriculture is an increase in efficiency of production, and a better distribution of agricultural products. Increased production would require three things—a process of crop planning, improvement in yield per acre, improvement in the quality of the produce. Crop planning would require the regulation of cultivation of a crop according to demand. World surpluses of such commodities as wheat, sugar and cotton have now rendered it necessary for us to turn our attention to alternative crops. Planning would also require a greater use of rotations, and a higher degree of diversification of cropping. Again, it is to be noted that in India there is scope for increasing the area under certain crops e. g., linseed and cigarette tobacco. As regards quantity and quality of produce, an improvement can be effected by a more efficient and scientific utilisation of the different factors of production. We may proceed to consider in detail the problems relating to each one of the factors.

\* India's rice and wheat yields have been compared with those of other countries.

Crop yields per acre in quintals.

	India	China	Japan	U.S.A.
Wheat	8.1	9.7	13.5	9.9
Rice	16.5	25.6	30.7	16.8

(Vide, Dr. R. K. Mukherjee's book Food Planning for Four Hundred Millions, P. 70)

**Land :** (a) **Size of holdings**—The size of the average holding of land in India is too small. This is due to the processes of subdivision and fragmentation that have been going on in this country for generations.\* Subdivision and fragmentation are to be attributed to the Hindu and Mahomedan laws of inheritance. The distribution of land in small plots is no doubt intended, to some extent, to facilitate the practices of fallowing and rotation. But the fractionalisation of holdings has been carried so far that it has become a great hindrance to proper cultivation of land. The following points may be noted in this connection :—(1) The fields near the village homesteads are overworked, while the more distant and smaller fields are neglected. (2) Scattered ownership of small fields stands in the way of permanent land improvements, e. g. construction of wells, maintenance of banks, drains etc. (3) There is waste of considerable labour and time in carrying manure, implements and water to tiny plots, (4) There is waste of land in providing ridges ; (5) "Toy holdings restrain the farmer not only from adopting more improved methods of cultivation but also even from intensive farming."

The remedy for fractionalisation is to be sought in legislation i. e. in the modification of the laws of inheritance. Another remedy which has been tried with success in the Punjab is that of consolidation of holdings under the auspices of co-operative societies. "In that

\* Subdivision means that in the same area the land is parcelled out in small tiny plots. Fragmentation means that the land owned by a person is scattered in small plots in different parts of the village.

province a hundred co-operative land consolidation societies are at work and with the assistance of a full-time Government staff are regularly consolidating about 60,000 acres annually."

**(b) Watering** :—Another important problem in connexion with the factor land is that of a sufficient supply of water. The rainfall in India is uncertain in character. It is moreover ill distributed in the country. As a safeguard against the vagaries of the monsoons, it becomes necessary to furnish irrigational facilities to the agriculturists. Irrigation is also a great necessity in parts of the country where the rainfall is usually very small in amount. The important types of irrigation works are (a) wells, (b) tanks (c) canals. The problems of irrigation have been discussed in detail in a subsequent chapter.

**(c) Soil Management** :—This relates to the provision of better seeds and of manures. Continuous cultivation of land in India extending over centuries has naturally exhausted to a great extent the fertility of the soil. To restore as well as to improve fertility intensive manuring of land is a vital necessity. Both organic manures e. g. green manures, composts, and mineral manures e. g. Ammonium Salts or Nitrates should be applied to land.

**Labour** :—Efficiency of production in agriculture depends largely upon labour i. e. upon the agriculturist himself. For increased production in agriculture it is

necessary to improve the efficiency of the cultivator. A most important obstacle to the increase in the efficiency of the cultivator is his illiteracy. His illiteracy is responsible for his conservatism and his superstitions. It has been rightly said : "Of all the factors making for prosperous agriculture by far the most important is the outlook of the peasant himself."\* To broaden the outlook of the cultivator it is necessary to educate him. Illiteracy now ranges from 70 to 90 p. c. of the population in the different provinces of India. The education that would be imparted to the agriculturist should be adapted to the special conditions of the villages. "India also requires a new system of education in the villages which will fit the people for rural services and ways of living and assist towards modernisation of the villages." (Dr. R. K. Mukherjee).

Another problem that is closely linked up with the efficiency of the agriculturist is that of human nutrition.† The question of malnutrition of the agriculturists and indeed of the Indian population as a whole is of great importance at the present time. The nutrition problem is one of improving the diet of the people. It has been said : "the least satisfactory of all the Indian diets is that consisting of rice, dal, vegetables and condi-

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\* Agricultural Commission Report, P. 89.

† "In India the study of malnutrition has not even begun, although the most considerable section of the population may be regarded as living on a subnutritional level, which gravely affects their powers of resistance and efficiency. (Food Planning, P 154).

ments.”\* This is the diet of the people of Bengal, Orissa and Madras. Such diet is associated with a very low level of physical efficiency.† This diet has been contrasted with the rich and nutritive diet of the Punjab and North-west Frontier Province consisting as it does of wheat, milk, vegetables and fruits. It should be noted in this connection that so far as the diet of the agriculturists is concerned it is not merely a matter of quality but of quantity as well. The number of cultivators who do not get even two full meals a day is pretty large in this country.

While on the subject of agricultural labour, we may refer to an important labour problem that has cropped up in the village economy. This relates to the growing class of landless agricultural labours in India. “The landless class newly risen to importance in India floats about in the countryside, lowers agricultural efficiency and prevents the introduction of machinery in agriculture.”

**Capital** :—The capital with which the agriculturist carries on his work is very small indeed. It consists of

\* Ibid, P. 164.

† The question of rice-standard vs. beef-standard has been examined by a Japanese writer who maintains that it is wrong to suppose that the rice is lower than beef in respect of nutritive value. A representative of the International Labour Office made the following remark regarding the Japanese diet in which rice occupies an important place, “Western people do not know how the Japanese workers live. It seems to me the cost of living is cheaper here but I do not see any low standard of living.” (Sociology of Population P.47).

his few simple implements and his under-nourished live-stock. Agriculture in India must be mechanised i.e. modern machineries and instruments should be used as far as possible to increase productive efficiency. Much can be expected in this respect if the process of electrification of the rural areas which is already advanced in some provinces is carried still further.

On account of the lack of use of mechanical appliances in our country on any large scale, agricultural industry in India has to depend greatly upon the cattle population. "It is the bullock that draws the plough, pulls the cart and threshes the corn." Besides being the mother of the irreplaceable bullock, the cow is the producer of milk which is one of the best foods for children and vegetarians. The main problem relating to cattle is to increase the efficiency and productivity of each individual animal by measures of disease control, adoption of methods of scientific breeding, and provision of better fodder for animals. The fodder problem has become particularly serious. Dr. Radhakamal Mukherjee speaks of the triangular conflict of man, land and cattle. There has been a considerable growth in animal population and at the same time there has been a large increase in human population, so that there is an increasing pressure on land for the supply of foods for both "The gradual expansion of the cultivated area and the almost complete conversion of pastures into tilled lands in the congested areas of India have resulted in the impoverishment of cattle."\*

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\* Food Planning, P. 129.

**Organisation :** (a) **internal** :—Organisation of agriculture can be considered from two standpoints, internal and external. Internally, we find that under the impact of western civilisation there has been a disorganisation of the old village community. But the village organisation can be reconstructed by making proper use of the institution of village panchayet. There is a great need for the revival of the autonomous village organisation. "As regards the local organisation it is clear that it must be such that it will be in a position to carry out an all-sided campaign against existing conditions so that there may be an improvement in every sphere. The three institutions which are already in existence in several parts of the country viz., (1) the village co-operative society, or village bank, (2) the village school, and (3) the village panchayet or village council, are best suited for this purpose."\* In particular, the village panchayet should be re-organised and put upon a sound footing so that it may attend to those needs of the village which require common action. Common action is conspicuous by its absence in the villages. The habit of working together has generally disappeared in the villages. Village factions and disputes tend further to disunite people and make constructive work difficult. People do not come forward to shoulder responsibility. Everybody's work has become nobody's work.

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\* Co-operative Village Banks (Bulletin No. 2 issued by the Reserve Bank of India), P. 13.

**(b) External—The Marketing Problem :—**In its external aspect the problem is the proper organisation of villagers as against capitalists, or middlemen who try to exploit them. The most vital question in this connexion is that of the regulation of agricultural marketing. The rural marketing problem has come into great prominence recently. That the agriculturist in our country does not get a square deal to a great extent because of the marketing difficulties is a matter of common observation. The problem of regulating the marketing of two important commodities, namely, jute and paddy was recently considered at length by two committees the Jute Enquiry Committee and the Paddy and Rice Enquiry Committee respectively.\* The marketing problem has in consequence come into great prominence. The main difficulties of the agriculturist so far as the marketing of produce is concerned were pointed out by the above Committee to be two-fold. In the first place, there is a category of defects arising out of the cultivators' imperfect knowledge of market conditions, irregular allowances and deductions, absence of standardization of weights and measures, and of the quality of the produce, difficulties of transport and so on. Secondly, there are certain factors. viz. lack of organisation and inadequate economic resources which are responsible for the meagre holding power of the agriculturists. The regulated market was recommended in the hope that it would be able to remove the above difficulties of the cultivator.

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\* The two Committees were appointed by the Government of Bengal, and they dealt with the problems relating to this province.

A Markets Bill (The Agricultural Produce Markets Bill) is on the legislative anvil in our province just now. The vital importance of regulated marketing from the stand point of the agriculturist is indeed admitted on all hands. It has been found that there is often a wide margin of difference between the price that the agriculturist gets and the price that the ultimate consumer pays for agricultural produce. This difference cannot be explained by making allowances for transportation costs and other incidental charges. The fact is that the agriculturist is subjected to the exactions of a very large number of middlemen. In this view the elimination of the inflated profits of middlemen is an imperativs necessity.

The object of the aforesaid Bill has been stated to be : "to ensure that the cultivator-producer receives a fair deal, a fair price, and the whole of the market price minus reasonable market charges." To this end a market committee would be set up in a defined market area. The Committee in any notified market area within its jurisdiction shall establish and maintain a market for agricultural produce. Strict regulation of sale and purchase in the market would be the object of the Committee. While there cannot be any objection to the principle of the bill, it nevertheless suffers from certain glaring defects.

**The role of Government in agriculture** :—In view of the fact that agriculture is the most important industry of the country on which the prosperity of India's millions depends, the Government have undoubtedly a great responsibility in regard to it. It was however belatedly that the Government awoke to the sense

of their responsibility in this matter so that their achievements in this respect are but a fraction of what might and should have been accomplished. It was in 1884 that Agricultural Departments were brought into existence in the different provinces. In 1903 the Agricultural Research Institute was established at Pusa. In 1908 the Agricultural College at Poona came into existence, and later similar colleges were started at various other centres. In 1921 agriculture became a transferred subject so that the major burden of responsibility in regard to agriculture devolved upon the Provincial Governments. In 1925 a Royal Commission on Agriculture was appointed to examine and to report on the conditions of agriculture and rural economy in India.\* Following the recommendation of the Commission the Imperial Council of Agricultural Research was established in 1929.† The primary function of the Council is to promote, guide and co-ordinate research work in relation to agriculture throughout India. It is a body to which the departments of agriculture look

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\* This was the first Commission appointed to deal comprehensively with Indian Agriculture in all its aspects and bearings. The Famine Commissions of 1880, 1898 and 1901, the Irrigation Commission of 1903 and the Committee on Co-operation of 1915 dealt with only specific aspects of the problem of agriculture.

† The Agricultural Commission laid the greatest emphasis upon the organisation of agricultural research. "The basis of all agricultural progress is experiment. However efficient the organisation which is built up for demonstration and propaganda, unless that organisation is based on the solid foundations provided by research, it is merely a house built on sand." (Abridged Report, P. 4).

for guidance. The Council has a Governing Body which meets once a year and an Advisory Board which meets twice. The work of the Council is carried on by various Committees which are engaged in specific branches of agricultural research. There are such Committees as follows :—Rice Committee, Wheat Committee, Sugar Committee, the Social Science Committee, the Dry Farming Co-ordination Committee, Central Fodder and Grazing Committee and so on.

The brunt of the work of rendering assistance to agriculture has now to be borne by the Agricultural Departments in the various provinces. The work of the Departments relates to research and experiment, and also to demonstration and propaganda. In order that agricultural research may be useful to the cultivator its results must be presented to him in such a manner that the agriculturist may be induced to adopt the improvements. For this purpose both propaganda work and demonstration are extremely necessary. An improvement in crop or method of cultivation should be demonstrated to the cultivators. To this end it is not model experimental farms but ordinary lands that should be used. Regarding the demonstration work in Bengal it has been pointed out :—“It has also been a mistaken policy in the past to choose particularly good lands for demonstration purposes, and to confine demonstration farms mainly to headquarters. No cultivator will be impressed if good crops are grown on the best land, they want to see paying crops grown on inferior lands.”\*

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\* Report of the Land Revenue Commission, Bengal, P. 102.

The Agricultural Departments also undertake to distribute improved seeds among cultivators. Further, they are in charge of agricultural education which is imparted in agricultural schools and colleges. It is however almost a universal complaint that Agricultural Departments have been considerably hampered in their work because of lack of adequate funds. In Bengal the departmental budget has been in the region of 9 lakhs (1939-40). This is too small even in comparison with the standards of expenditure in other provinces. The sum should be raised at least to Rs. 27 lakhs.\*

The Government have also tried to help agriculture in other ways—through the provision of irrigational facilities, financial help in the form of takkavi loans, improvement of communications, village sanitation, rural industries and labour etc. The Co-operative Movement in India also owes much to Government assistance.

**Agricultural Planning† :**—The supreme need of the hour in India to-day is a planned programme of economic reconstruction. The National Planning Committee which was formed when the Congress was in office in the provinces has been doing useful work in this connexion. It is important to realise that the agricultural industry must be given a prominent place in any scheme

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\* The Land Revenue Commission Report, P. 102. In Madras the budget provision in the same year was Rs. 22 lakhs, in Punjab it amounted to 38½ lakhs.

† The bare outline of the plan on agriculture worked out by the National Planning Committee is presented here.

of planned economy. It should not be forgotten that all progress in India must be measured in terms of the raising of the standards of India's millions. Regarding the object of agricultural planning, the Committee have pointed out that 'the country should be self-sufficient as regards foodstuffs,' and as regards the quantity of raw materials this should be increased according to a definite programme.

The following aspects of agricultural economy must be covered by the planned programme : (1) *Crop planning and agricultural production.* This would include the following items : (a) development of scientific agriculture with proper attempt to bring about a suitable balance between food crops (wheat, rice, millets, pulses etc.), and commercial crops (cotton, jute, tobacco, tea, coffee, oilseeds etc.). (b) Fodder crops, (c) Encouragement and development of subsidiary industries dependent on agriculture. (d) Dissemination of information regarding agriculture, and practical demonstration of improved agricultural methods. (2) *Animal Husbandry and Dairying* :—(a) Cattle breeding necessary for farm labour, transport and food supply, (b) fodder for live stock and animal nutrition. (c) Treatment of animal diseases and elimination of superfluous and uneconomic livestock. (d) Production of dairy products like milk, butter, ghee, cheese etc. to be encouraged, (e) Poultry farming, (f) Bee-keeping. (3) *Soil conservation and afforestation.* (a) Soil must be protected against erosion, floods and other detrimental factors affecting the soil. (b) Treatment of the soil with manures and fertilisers.

(c) Providing drainage and other facilities needed to guard against water logging. (d) Planting of new forests in areas denuded of forests. (e) care of existing forests. (f) Development of forest produce. (g) Establishing or developing industries founded upon forest produce. (h) Provision of transport facilities needed to develop forests. (i) reclamation of land. (4) *River training and Irrigation*—(a) Proper care should be taken of river sanitation and water supply for human consumption. (b) Rivers should be trained for the development of power. (c) Measures should be adopted for protection against floods. (d) Adequate water should be provided for agriculture by canal and well and tank irrigation. (5) *Rural Marketing and finance*—(a) Organisation of markets in rural areas at convenient centres. (b) Facilities for storing and grading of commodities. (c) Financing of such commodities while being marketed and devising appropriate institutions and instruments to develop rural credit. (d) Place and burden of middlemen in marketing. (e) The necessary transport facilities. (6) *Land policy, agricultural labour and insurance*—(a) Measures should be adopted for Agrarian reform with a view to bring about an equitable distribution of land resources and their effective utilisation for the maximum benefit of the country. (b) A definite land policy should be adopted and necessary legislation passed to deal with the problems of the size of economic holdings with due regard to the number to be supported as well as to the full utilisation of the equipment available. (c) Land revenue systems should be revised if and when necessary. (d) Supply

of cheap power for agricultural purposes. (e) Ways and means of bringing under cultivation culturable waste. (f) Exploration of the possibilities of co-operation for production and consumption from the standpoint of agriculturists. (g) The land policy should be brought into relation with problem of rural indebtedness. (h) Problems of agricultural labour including wages, hours of work, condition of employment, efficiency of labour should be tackled ; problems of landless labourers should also be attended to.

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## CHAPTER IV

### The Problem of rural indebtedness

**Introduction :—**A most important problem relating to Indian agriculture is that of the heavy burden of debt which the Indian agriculturists carry on their shoulders. The habit of incurring debts is by no means uncommon among other agricultural communities of the world. "The large farmers of America and Australia sometimes get heavily indebted, but it is mostly due to sudden fall in the price-level or to the vagaries of the season."\* In India however the peasants are chronically in debt, and,

\* Paper by P. J. Thomas in Economic Problems of modern India, P. 168.

indeed, their debts have been steadily increasing from generation to generation. Another important distinguishing feature of the debt of the Indian agriculturists is that it is incurred for the most part for unproductive purposes. "The American farmer raises large loans but those are mostly for productive purposes."

**The extent of indebtedness** :—There have been various computations of the amount of rural indebtedness in India. The Central Banking Enquiry Committee estimated it at 900 crores of rupees in 1929. Since then there has been a great fall in prices. There has been in consequence "an increase of agricultural indebtedness the real burden of which is now estimated at the colossal figure of Rs. 2,200 crores."\*

**The Causes of Indebtedness** :—*(1) Overcrowding in Agriculture*—The excessive pressure on land which is a characteristic feature of our national economy has led to the evils of fragmentation and subdivision. The latter in turn, have to a great extent made agriculture non-lucrative. The agriculturist lives somehow from hand to mouth so that whenever a bad season comes or an occasion for a special expenditure arises he has no reserve to fall back upon, but has to resort to borrowing.

*(2) Vagaries of the monsoons*—The vagaries of the monsoons are responsible for the uncertainty of the agri-

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\* Economic Problems of Modern India—Introduction.

culturist's income. 'Rain fails or there is too much rain and flood, or rain comes at the wrong time.' This leads to crop failures. The ryot is then compelled to borrow for what has been called 'family necessity,' that is, for his maintenance.

(3) *Lore of litigation, as also the imprudence and extravagance of the agriculturist*—Although the Indian agriculturist has a precarious income, he is nevertheless a spendthrift in many respects. He spends a lot of money on litigation, and on social ceremonies like marriage, the sradh etc. This money is secured by borrowing.

(4) *The evil of cheap credit*—The easy availability of credit has also proved to be a great menace to the Indian agriculturist. Whenever the agriculturist is in a tight corner, the village money-lender is there to accommodate him. The latter, however, charges very high rates of interest which greatly add to the burden of debt.

(5) *Ancestral debt*—A large part of the debt of the agriculturists has been handed down to them by their ancestors. The volume of this inherited debt has increased greatly owing to the accumulations of interest.

(6) *Land Revenue Policy*—The heavy burden of land rents has also been an important cause of agricultural indebtedness. The land revenue system should be made more flexible so that quick relief can be given to the peasants in case of agricultural distress.

**Effects of Rural Indebtedness** :—Rural indebtedness leads to serious economic, social and moral consequences. As regards the economic effects it is to be noted in the first place that it leads to agricultural inefficiency. "A person overburdened with debt can have little incentive for making the best use of his lands, nor will he be interested in introducing better crops and methods." Secondly, a person in debt has often to dispose of his land to meet interest-charges or to repay the principal of the debt. In consequence, the land frequently passes to non-agriculturists who do not take a proper interest in the cultivation of the land. Socially, an important consequence is that it is giving rise to a growing class of landless agriculturists who are reduced to the status of serfs. The disastrous moral result of indebtedness is that the agriculturist becomes pessimistic and despondent and loses the courage to face the future boldly.

**Government measures for the relief of agricultural debtors** :—**(1) Co-operative Credit**—Among the many measures adopted by the Government for the relief of debtors, their systematic policy of encouraging the co-operative credit movement occupies a foremost place. But although the co-operative credit movement has great possibilities, it has not been attended with much success in India for a variety of reasons which we shall have the occasion to discuss in detail in a later chapter.

**(2) Prevention of land alienation** :—Land Alienation Acts have been passed in several provinces to check

the transfer of land. For instance the Punjab Land Alienation Act passed in 1901 prohibited the purchase of land by non-agricultural persons from agriculturists. The importance of such legislation can be easily appreciated in view of the fact that the transference of land from the agriculturists to the non-agriculturists which is due to the indebtedness of the cultivators leads to the neglect or the improper use of land. .

**(3) Government Loans** :—Under the Land Improvement Loans Act of 1883 and the Agriculturists' Loans Act of 1884 the Government advances Takavi Loans to agriculturists This system, however, has not been much of a success.

**(4) Control of moneylenders** :—There is a large body of professional moneylenders in the villages who are too ready to help the agriculturists whenever they are in distress. They give small loans on a mere verbal promise without any entry in a document or even a witness. There are also non-professional moneylenders who are even more greedy and exacting than their professional brethren. The moneylenders are found to charge very high rates of interest and they are guilty of various objectionable practices. In view of these facts it has become an urgent necessity to control moneylenders. Legislation in this respect has been attempted on the following lines, namely, (a) Usurious Loans Act, 1918. It empowered the Courts of Law to re-open and examine all loan transactions whenever they had any reason to suspect that the

stipulated rate of interest was too high or that the transactions were substantially unfair to the borrowers. The Act has not been very successful but there is a general agreement that if it is utilised more fully and freely it may considerably mitigate the evils of usury in India.

(b) The Punjab Regulation of Accounts Act which was passed in 1930 compelled all those who gave loans at interest to maintain a separate account for each debtor in the prescribed way. The Act is intended to check fraudulent practices on the part of moneylenders.

(c) Bengal Moneylenders' Act passed in 1933 which has been amended in 1940 (cf. the U. P. Agriculturists' Relief Act 1934 and the Madras Debtors' Protection Act 1934).

**(5) Land Mortgage Banks** :—The problem of rural indebtedness has two separate aspects. In the first place there is a need to devise measures for arresting the future growth of unproductive debt. The measures that we have discussed so far relate more or less to these aspects of the problem. The other important aspect of the problem is as to how the standing indebtedness, a large part of which has been inherited, can be liquidated. For these purposes two courses may be adopted, namely the establishment of Land Mortgage Banks which would advance money for the repayment of past debt and the redemption of mortgaged land and secondly, the adoption of a policy of debt conciliation which we shall discuss below. In our province five land mortgage banks have been started under Government auspices but they are still in the experimental stage.

**(6) Debt conciliation :—**Land Mortgage Banks can be used for debt redemption only for those who have sufficient landed security to offer. A substantial number of agriculturists cannot fulfil this condition. Hence it is necessary for provincial Governments to initiate and develop a vigorous policy of debt conciliation between debtors and creditors. To this end an important piece of legislation was passed in Bengal in 1935 which is known as the Agricultural Debtors' Act. This Act empowers the Provincial Government to set up a debt conciliation and settlement board in each district or a local area for relieving agriculturists from indebtedness by amicable settlements between them and creditors. An amendment of this Act has been proposed and it is now under the consideration of the legislature.

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## CHAPTER V

### **Land Revenue System of India**

**Introduction :—**In India, as in most other countries, there are three parties interested in the land—the cultivators, the landlord and the state. From time immemorial the ruling power in India has regarded itself as entitled to a certain share of the produce of every acre of land, but has refrained from claiming absolute proprietorship of the soil. Traditionally, the proprietorship of land does not belong to any one of the three parties mentioned above but all of them have varying rights in relation to land. A predominantly agricultural country as India is, the state has always depended for the major part of its income on land. Manu had laid down that the king was entitled to one-sixth share of the produce. After the Moghul conquest of India there was little interference with the existing land system of the country. During the reign of Akbar a detailed system of assessment was introduced by the Revenue Minister, Raja Todar Mal. On the basis of this assessment the state's share was fixed at one third of the average gross produce. This was increased generally to a half during Aurangzeb's reign but otherwise there was little change in the land system,

and the position of the cultivators during the Moghul period was substantially the same as in the Hindu period. The old residential cultivators who were called the khudkasht ryots had the right to remain in undisturbed possession of their holdings subject to the payment of their dues. With the advent of the East India Company's rule in India there followed an initial period of confusion and chaos in the land revenue system of the country. After experimenting with short-term land settlements, it was at last decided to adopt a permanent settlement in Bengal. Lord Cornwallis was chiefly responsible for its introduction in 1793. An attempt was made to extend it to other parts of India. For instance, it was also introduced in Benares and Northern Madras. Subsequently, however the permanent settlement lost favour and temporary settlements were made in the other provinces of India.

**Meaning of a land settlement** :—Land settlement involves three things :—(1) determination of the share of the produce to which the state is entitled, (2) the persons who should pay this share, (3) determination of the various rights and interests in the land. Land settlement is a complicated and long-drawn-out affair. Records and village maps have to be prepared for this purpose.

**Kinds of settlements** :—Settlements have been classified into temporary and permanent, according to the period of time involved. A temporary settlement fixes the land revenue for a definite period of time on the

expiry of which a fresh settlement takes place and the revenue is fixed anew. In the case of permanent settlement, however, the revenue is permanently fixed so that there is no need for fresh settlement at definite intervals of time. The Permanent Settlement obtains in Bengal, North Madras and Benares. The Temporary Settlement obtains in Bombay, Madras, United Provinces, Central Provinces, and the Punjab. The period of settlement is thirty years in the case of the first three provinces, twenty years in the Central Provinces, and forty years in the Punjab.

**Land Tenures** :—Land tenure refers to the way in which land is held. In the case of a *samindari tenure* a large estate is held by one person or a few joint owners who pay the land revenue. The ryot or the cultivator has no direct relations with the Government. This system prevails in Bengal. *Mahalwari tenure*—The village estates are held by co-sharing bodies whose members are jointly and severally responsible for the payment of the land revenue. This system prevails in Agra and partly in the Punjab. *Ryotwari tenure*—The ryot or the cultivator is himself personally responsible for the payment of revenue. The land is held in distinct individual and independent holdings. The ryots have direct relations with the Government. "

Land settlements have been classified according to the above different systems of land tenure. Settle-

ment with the zamindars has been called zamindari settlement. This may be either on a permanent basis as in Bengal or on a temporary basis as in Oudh and with a few zamindars in Bengal. In practice the zamindari settlement has come to be identified with the permanent settlement, because of the large coincidence of the two as in Bengal. On the other hand, there is ryotwari settlement corresponding to the ryotwari tenure. Settlements of this variety are on a temporary basis so that ryotwari settlements are commonly identified with the temporary settlements. The less important settlements are the mahalwari settlements and malguzari settlements with village communities in the Punjab and Central Provinces respectively.

**The Permanent Settlement under fire** :—The Permanent Settlement has of late been subjected to a great deal of hostile criticism. A Land Revenue Commission was recently appointed by the Government of Bengal under the Chairmanship of Sir Francis Floud. The terms of reference directed the Commission (a) to examine the existing land revenue system of Bengal in its various aspects with special reference to the Permanent Settlement, (b) to estimate the effect of the system on the economic and social structure of Bengal, and its influence on the revenues and administrative machinery of the Provincial Government, (c) to appraise the advantages and disadvantages of the existing system, (d) whether it is practicable and advisable for Government to acquire all the superior interests in agricultural

land so as to bring the actual cultivators into direct relation with the Government.\*

**Report of the Land Revenue Commission** :—The report of the Floud Commission has been published recently. The survey of the history and effects of permanent settlement made by the Commission as well as their recommendations are briefly presented here.

**(a) Genesis of the Permanent Settlement** :—The origin of the Permanent Settlement may be traced to the following causes : (a) The entire absence of maps and reliable records of areas and rent of individual holdings stood in the way of the adoption of a ryotwari settlement, (b) the company had no trained staff capable of direct collection from the cultivators. The only course open to the company was to collect revenue through the zamindars, (c) the one great need of the company under the circumstances was the punctual receipt of its revenue. For this purpose expansion of cultivation was necessary. This could be ensured by giving to the people interested in land down to the cultivators a sense of security that they and not their superiors would reap the benefit of their industry. It was realised that the fixing of revenue for ever would lead to loss of revenue to the state but it was thought that it would be possible to make this up by indirect taxation. (d) Lord Cornwallis hoped that the permanent settlement will

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\* Report, pp. 3 and 4.

result in the creation of a class of landlords who would supply capital for the improvement of land and the extension of cultivation.

**(b) Its immediate effects :—**As regards the effects of the Permanent Settlement we have to distinguish its immediate effects from its ultimate effects. As regards the immediate effects the following points are to be noted : (a) Cultivation extended and revenue came in with unfailing regularity. (b) Zamindars suffered somewhat at the beginning. "The period immediately after the Permanent Settlement and indeed for three or four decades was one during which the zamindars were struggling for their existence against the sale law." But as a feeling of security developed and large areas of jungle and waste land were brought under cultivation the zamindars' margin of profit greatly increased. (c) A disastrous consequence of the Permanent Settlement was that it led practically to the obliteration of the rights of the ryots. They were left to the tender mercies of the zamindars. "They were described by the Government of India as having been rack-rented, impoverished and oppressed."\* The tenants were left unprotected from 1793 to 1859. By the Rent Act of the latter year as also by the Tenancy Acts of 1885, 1928 and 1938 attempts were made to restore and protect the rights of the peasants.

**(c) Its ultimate effects :—**Land revenue which is the most important source of revenue of the Government

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\* Report, P. 24.

in an agricultural country has remained almost inelastic for 150 years. The benefit of more valuable crops and higher prices was reaped partly by the landlords when they were in a position to enhance rents, and by the tenants when this could not be done. Furthermore, "the unearned increment due to the growth of towns and the development of trade and industries has also been appropriated by the few."

(d) **Subinfeudation**—It encouraged an excessive amount of subinfeudation. This was due to the wide margin between the fixed land revenue and the economic rent of the land. In consequence the connection between the zamindars and ryots has been severed and the intention of Lord Cornwallis to establish a landlord and tenant system in Bengal on the English model has been defeated and the responsibility for the best use of land cannot be fixed at any particular link in the long chain between the zamindar and the cultivator. The zamindars have failed to fulfil their function as they have felt no incentive to effect agricultural improvement. There has been little or no inducement on the part of the Government either to spend public money on agricultural development when the benefit of the improvements goes into private hands. It is to be noted in this connection that the army of rent receivers is increasing in number each year.

(e) **Administrative defects**—The complexities of Bengal land system have greatly increased litigation. There is much uncertainty in regard to the respective rights and

obligations of the different parties interested in land. This leaves a large loophole for fraud and dishonesty.

(f) **Abolition of Permanent Settlement**—The majority of the members of the Land Revenue Commission arrived at the conclusion that "whatever may have been the justification for the permanent settlement in 1793, it is no longer suited to the conditions of the present time." They held that "the zamindari system has developed so many defects that it has ceased to serve any national interest." The Commission therefore recommended that "in order to improve the economic condition of the cultivator the permanent settlement and the zamindari system should be replaced by a ryotwari system under which the Government will be brought into direct relation with the actual cultivators by the acquisition of all the superior interests in agricultural land." Regarding the advantages of state acquisition the Commission pointed out that the state as the sole landlord would be in a much stronger position than any private landlords to initiate schemes for the consolidation of holdings, the restoration of economic holdings, the provision of grazing land and the prevention of transference of land to non-agriculturists. The state acquisition should be effected, in the view of the Commission, by compensation to be paid at a flat rate for all interests. The Commission could not however agree on the rate of compensation that would be equitable. Calculation of costs of compensation were however made by the Commission on the basis of 10, 12 or 15 times the net profit. The amount of expenditure that would be in-

volved according to these calculations would vary roughly from about 100 crores of rupees to about 140 crores. The Commission further pointed out that after completion of the scheme of state acquisition, it would be necessary to prevent further processes of sub-injunction and transfer to non-agriculturists by placing restrictions upon transfer and subletting of land. ,

## CHAPTER VI

### The Co-operative Movement in India

**Meaning and Principles of Co-operation :—**Co-operation means association. Those who are individually weak and helpless can greatly increase their strength by coming together in a co-operative society. It has been rightly said, "The theory of co-operation is very briefly that an isolated and powerless individual can, by association with others and by moral development and mutual support, obtain, in his own degree, the material advantages available to wealthy or powerful persons, and thereby develop himself to the fullest extent of his natural

abilities." The aims of co-operation may briefly be stated to be better business, better farming and better living. As regards the principles of co-operation, they are few in number and are quite simple. These principles are as follows :—(1) *Free association*—The essential feature of co-operation is that it is a voluntary association. Compulsion cannot achieve the ends of spontaneous, and willing co-operation. (2) *Proximity*—The members of a co-operative society should belong to a common limited locality, either a village or a town. The importance of this principle lies in the fact that they are mutually responsible for one another, so that there cannot be close co-operation among them unless they live together in the same area. (3) *Equality*—There can be true co-operation only among equals. (4) *Solidarity*—Co-operators must solidly stand together. (5) *Economy*—Thrift and economy should be the guiding principles of the members of the co-operative society. (6) *Peace*—Peace and harmony is of the essence of co-operation.

**Forms of co-operation** :—There can be different forms of co-operation in the different economic fields, There can be co-operation in production as well as in consumption, in sale as well as in purchase, in agriculture as well as in industries. An important type of co-operation is the co-operative credit society whose object is to provide cheap and yet controlled credit.

**The importance of co-operation in India** :—There can be little question that the co-operative movement

has great possibilities in India. We have already observed that one of the most baffling economic problems of our country is that of agricultural indebtedness. This evil is so great and there are so many difficulties in tackling it that it is necessary to launch simultaneous attacks against it from several directions. Various measures need to be adopted to relieve the colossal burden of the debts. But the present situation demands that not merely the burden of existing debts should be mitigated but also that the ryots should be prevented from getting into debts again. The co-operative credit movement seeks to attain this end by regulating the ryots' borrowing so as to confine it, as far as practicable, to productive and profitable uses. Frederick Nicholson pointed out many years ago that the end of the co-operative village banks should be to supply credit which is 'controlled, heedful and productive,' \*\* On account of the special urgency and importance of the problem of rural credit in India, it is the rural credit society that is the predominating type of co-operation in India. Co-operation however is being increasingly tried with success in other spheres.

**History of the Co-operative Government** :—Historically the origin of the co-operative movement may be traced back to the recommendations of Indian Famine Commission of 1901. Before that date however an

\* Co-operation and Agricultural Indebtedness in Bengal by Dr. J. P. Neogi. (Current Thought, July-September '39.)

exhaustive study of the Co-operative system in Europe had been made by Sir Frederick Nicholson on behalf of the Madras Government and his reports were published in 1895-97. In his reports he put forward a powerful plea for the introduction of co-operative credit societies on the lines of the Raiffeisen model. Sir Frederick pointed out that the credit which the agriculturist gets "must indeed be cheap, and facile in that it shall be ever at hand, but it must be credit which shall only be so obtainable that the act and effort of obtaining it shall educate discipline and guide the borrower." He went on to say that the banks which "fulfil at once requirements of thrift and credit, while promoting in a high degree those qualities which are essential to high national character are the co-operative village banks. They are not formed by capitalists seeking investments for their funds with the hope of earning dividends thereon, and therefore widening business regardless of results to the borrowers, but are small groups of men, all of the same neighbourhood, who unite their savings, attract capital by their thrift and prudence and lend the proceeds to themselves on equitable terms for productive use." Co-operation was officially introduced in India with the passing of the Co-operative Credit Societies Act of 1904. With the passing of the Act of 1912 which remedied some of the defects of the earlier Act, the co-operative movement entered upon the second stage of its development. The movement entered on its third stage of developments after the publication of the classic report of the MacLagan Committee in 1915.

**The co-operative organisation in India :—**The co-operative organisation of India is a complex and diversified structure consisting as it does of various kinds of societies.

**A. Co-operative credit :—**(1) The co-operative rural credit organisation : (i) the Primary Societies, (ii) the Central Banks, (iii) the Provincial Banks. (2) Land Mortgage Banks. (3) Urban Co-operative Banks.

**A. Non-credit co-operation :—**(1) Consolidation of holdings, (2) Co-operative marketing, (3) Housing Societies, (4) Co-operative Stores, (5) Industrial Societies, (6) Co-operative Insurance, (7) Co-operative Educational Institutes.

**A. (1) The co-operative rural credit organisation :—**The co-operative rural credit organisation has a federal structure. At the base of the structure we have the primary societies which have a limited area of operation comprising a village. The primary societies in a district are federated into a Central Bank. The central banks in their turn are federated into their apex organisation, the provincial co-operative bank. We shall consider each separately.

**(i) Primary Societies :—***Size*—Its membership should not exceed one hundred. *Area of operation*—It is restricted usually to one village. *Unlimited liability*—Members are liable to the full extent of their properties

for the debts of the society. *Management*—it is democratic and honorary. *Working capital*—it is derived internally from entrance fees paid by members, deposits by members, share capital if any, and reserve fund. Externally, it is derived from loans and deposits from other societies, from the Government and other central financing agencies. *Loan Policy*—The primary societies should pursue a sound loan policy. "Without a sound policy to regulate co-operative loans with due regard to the legitimate credit needs of the borrower, the economic effect of the loan on his productive activities, his capacity to repay, the sources of repayment and other economic factors, there can be no orderly and beneficial development of co-operative credit."\*

**(ii) Central Banks<sup>†</sup>**—The central banks finance the primary credit societies, balance the excess and deficiency in their resources. A central bank is a federation of primary societies, and has also individuals as members.<sup>1</sup>

\*Mr. V. Ramadas Pantulu's Paper in Economic Problems, p. 195.

<sup>1</sup> In some provinces there are unions which serve as connecting links between primary societies and central banks. These are,—  
(a) guaranteeing unions in Burma, (b) supervising unions in Madras and Bombay, (c) banking unions in Bombay.

†The Central Banking Enquiry Committee said, "we do not recommend the exclusion of individual members from central co-

**(III) Provincial Bank:**—Central co-operative banks are federated into an apex bank called a provincial co-operative bank. Its share capital is furnished partially by the affiliated central banks and partially by individuals. The provincial bank links up the co-operative organisation with the money market and the commercial banks, it acts as the financial agency of the central banks, and balances the excess and deficiency in the resources of the central banks.

**(2) Land mortgage banks:**—The co-operative societies cannot supply long-term credit. The agriculturists require long-term credit for various purposes—for the purchase of land or costly agricultural appliances, the improvement of holdings, the repayment of past debt, and the redemption of mortgaged land. Credit needs of this type can be supplied by Land Mortgage Banks alone. Except in the provinces of Madras, Bombay and the Punjab, experiments in land mortgage banks have not been tried on any appreciable scale. In Bengal five land mortgage banks have been started which are still in the experimental stage.

**(3) Urban Co-operative Banks:**—Co-operative credit societies in urban areas supply the needs of small traders, artisans, shop-keepers, salaried classes, petty contractors,

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operative banks but we agree with the MacLagan Committee on co-operation that societies' representatives should have a preponderating voice in their management." (P. 121).

wage earners and so on. They are based on the model of Schulze Delitsch Banks in Germany.

**B. Non-credit—(1) Co-operative consolidation societies**  
 —In the Punjab a large number of such societies is working. Their efforts to consolidate holdings have been attended with great success. This method has great possibilities and should be tried in other parts of India.

**(2) Co-operative marketing** :—We have already had occasion to deal with the marketing problem of the Indian agriculturists. The co-operative method can be employed to solve the marketing problem. Co-operative marketing may assume various forms: (a) The most elementary and simple institution is the co-operative commission shop. This does not engage in co-operative marketing. It acts as the commission agent for the sale in the market of each member's produce separately. It takes the place of the commission agent and its only advantage to the agriculturists is that it protects him from illegal deductions. (b) There is a second method of co-operative marketing. Here the produce is sold not in the regular markets but in the village itself or a nearby centre to agents of firms and merchants who go there to make purchases. The society does not take any risk since no money is advanced by it to the members who give delivery of their produces to the merchants individually. (c) The third method is that which is followed by the cotton-sale societies of Bombay. In this case the produce of all the members is pooled together in the yard

of a ginning factory where it is ginned and pressed and then sold by the society in pucca bales. Such marketing societies generally make advances to the members up to a certain percentage of the value of the goods handed over by them to enable them to carry on till the goods are finally sold.

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**(3) Housing Societies** :—In Bombay and Madras co-operative housing societies have been fairly successful. “The co-operative house-building in India is essentially a middle-class enterprise and not a solution for the problem of housing the poor and working class.”  
 (Pantulu)

**(4) Co-operative stores** :—Consumer’s co-operation of which England is the original home has not made much headway in our country.

**(5) Industrial Societies** :—This type of society also has not flourished much in our country. It however has great possibilities especially in regard to cottage industries.

**(6) Co-operative insurance** :—Co-operative insurance developed in our country to some extent in the form of cattle insurance societies, but it has languished in recent years.

**The progress and present position of the movement** :—The growth of the co-operative movement

*from 1906-07 to 1936-37 is statistically shown below\**

Average for 4 years from	Number of societies	Number of members of primary societies	Working capital
1906.07 to			
1909-10	1,926	1,61,910	68,12
1915-16 to	•		•
1919-20	28,477	11,28,961	15,18,47
1925-26 to			
1929-30	93,936	36,88,841	74,89,13
1935-36	1,07,957	45,10,744	100,10,09

The Statutory Report of the Reserve Bank of India has rightly pointed out that with regard to the co-operative movement in India it is possible to quote an imposing array of figures about the number of societies, their membership, working capital, loans, etc. These figures however do not tell the whole story and a closer scrutiny reveals some very disquieting features. The report goes on to show that in 1934-35 out of 78,253 societies in British India about one-third were classified as D or E which means that they were not working properly or were on the verge of liquidation. The report further refers to the huge proportion of outstanding loans. The loans outstanding against members amounted to about twenty-four and a half-crores of which ten and three quarters were found to be over-due.

That the co-operative movement is in a bad way in India is indicated by all available facts and evidence.

\* Statistical Statements relating to the Co-operative Movement in India, pp. 3-5 (the figures are for All-India),

A recent bulletin of the Reserve Bank deals at length with the debacle of the co-operative movement in Burma. The movement there is being reconstructed laboriously by the Registrar with the assistance of the Government. A scheme announced in the Bengal Legislative Assembly on 15th March, 1939, by the Hon'ble Mr. M.B. Mullick, Minister for co-operation, dealt with measures for removing the deadlock in the co-operative credit institutions of this province. Of course, the movement has been more successful in provinces like Bombay, Madras and the Punjab but if we consider the movement in India as a whole we have hardly any justification for optimism regarding the future of co-operation unless energetic steps are taken to revitalise the movement and lead it along sound and healthy lines.

**The future of the co-operative movement in India—the problem of reconstruction :—**By Section 54 of the Reserve Bank Act, the Reserve Bank has a special department for dealing with agricultural credit and co-operation.

The Agricultural credit Department of the Bank is available for consultation by the Government, central or provincial, as also by the Provincial co-operative banks and other banking organisations. It is also required to co-ordinate the operations of the Bank with the co-operative banks and other organisations engaged in the business of agricultural credit.

Section 55(1) of the Act also laid upon the Bank an obligation to submit to the Governor General in

Council a report dealing with proposals for the improvement of the machinery for agricultural finance and for effecting a closer connection between agricultural enterprise and the operations of the Reserve Bank. The report was brought out in 1937 and we have already had occasion to refer to it. While it is recognised that all is not well with the co-operative movement in India it is insisted that "further effort should be made to render it capable of discharging in the best manner the function of supplying credit to the small agriculturists.....that the co-operative movement must be reconstructed and revitalised so as to serve not only as an effective credit agency but as a motive power for the improvement of agriculture from every point of view." The report proposes that co-operative banks should be run on strictly banking lines. (a) Overdues should be separated. Further they should be brought down to a reasonable level at which there is prospect for repayment. In the case of reconstruction in Burma scaling down and spreading out of overdues were attempted on a comprehensive scale. In some cases losses have to be squarely faced and the question is one of distributing the burden of loss among those who are best able to bear it. (2) In the second place emphasis is laid upon the building up of reserve funds. (3) Loans should be restricted to such sums only as could be reasonably expected to be repaid out of the harvest.

It is also emphasised in the report that the co-operative organisation should bring within its scope every

aspect of the farmer's life. "His (cultivator's) position can only be improved if the full force of the co-operative movement is brought to bear on him at every point in the sphere of education, of better living, of better farming and of marketing." This idea is further developed in the Bulletins No. 1 and 2 of the Reserve Bank. The first Bulletin makes the recommendation for multi-purpose societies and remarks as follows—"The single-purpose society has been tried over 25 years but generally speaking it has not succeeded in improving materially the economic position of the agriculturist."

Bulletin No.2 lays down a many sided programme under which the co-operative village banks should be directed towards (a) better farming, (b) arrangement for subsidiary occupations, (c) co-operative marketing, and (d) better living. The basic principles on which it should operate are—(a) the bank must take up the whole of the village life within its ambit, (2) it should aim at including everyone in the village, (3) there must be greater adherence to essential co-operative principles, (4) there must be continuous dealings and constant touch with the members, (5) concentration on a few selected areas rather than wide multiplicity and diffusion.

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## CHAPTER VII

### Irrigation in India

**Introduction** :—The rainfall throughout India is unequally distributed. It is moreover liable to failure or serious deficiency. Irrigation alone can give assured supplies of water where rainfall is inadequate, and when the rains fail. In this view, the importance of irrigation in the rural economy of India can be easily appreciated. This importance however varies from province to province. Irrigation is of chief importance in Sind, the Punjab, the North-west Frontier Province, Madras, the United Provinces and Bihar and Orissa.

**Types of irrigation work in India** :—There are mainly three kinds of irrigation works in India, viz (i) wells, (ii) tanks, and (iii) canals. (i) Wells cover about 25 p.c. of the irrigated area in India. The number of wells in India as a whole is about 2½ millions. The wells are mostly owned by private individuals. There is an enormous scope for the development of well-irrigation in India. (ii) Tanks—Tanks also are an important source of the supply of water to the agriculturists. They play a great role in the agricultural economy of Madras, but are scarcely to be found in the Punjab and the Sind. (iii) Of the three forms of irrigation, canals are at present

the most important. The Government has encouraged and undertaken this type of irrigation. Canals are of three types—(a) *inundation canals*. Their supply of water is of a seasonal character. The canal is drawn from a river, but no barrage is built to store the water. When the river is flooded it overflows with water. But at other times its supply of water is little or negligible (b) *Perennials canals*—These are also drawn from rivers. Their supply of water is permanent as a barrage is put across the river, and the water is thereby stored. Such canals are to be found in U. P., the Punjab and Madras. The Sukkur barrage is a canal of this type. (c) *Storage works canals*—Storage canals are built by putting a dam across a valley where rain-water accumulates during the monsoons.

**Government classification** :—The Government classifies irrigation works in a different way—(i) Productive works, (ii) Protective works, and (iii) Minor works. (i) The productive works are expected to yield sufficient revenue in course of ten years to meet all the costs that they involved initially. Such irrigation works were financed by the Government by the issue of loans. (ii) Protective works are built with the object of affording protection to the people against the possibilities of famine. (iii) Minor works—these are old tanks reconstructed by the Government.

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## CHAPTER VIII

### Famines in India

**Introduction** :—Famines claimed a heavy toll of human life in India in the latter part of the nineteenth century. Recurrence of famines at frequent intervals had become a source of much anxiety and alarm. It was said "In India famine has, perhaps, played a more momentous—rather a more tragic part in the history of the Empire than either a great war, a great revolution, or a great pestilence."\* The severity and frequency of famines have diminished. The general poverty of the people of the land however remains as serious a problem as ever. "Famines which swept off about 26·5 million persons between 1800 and 1900 have now lost their rigours, but considerable masses of the population now live on a sub-nutritional level." (Dr. R. K. Mukerji).

**Causes of Famines** :—(a) *Physical*—This mainly relates to the uncertain and capricious character of the rainfall in India. Sometimes there is a failure of rains leading to drought. A scarcity of food ensues, and famine rages fiercely in the affected area. Inadequacy of transport facilities and the ravages of animals are the other contributory physical causes of famines in India.

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\* Economic causes of Famines in India S. C. Roy. (1909) P. 1.

**(b) Economic**—The most vital economic cause of famine has been pointed out to be the want of resourcefulness or resisting capacity on the part of the ryots. The people live permanently on a bare subsistence level. They have hardly any savings wherewith they can keep body and soul together during a period of stress. The popular theory that there is no food available in the country to feed a starving population during famine has been found to be incorrect. The Famine Commissioners of 1898 pointed out that "the surplus produce of India, taken as a whole, still furnished ample means of meeting the demands of any part of the country likely to suffer from famine at one time." It thus becomes evident that the most important economic cause of famines has been the chronic and widespread poverty of the Indian people. The causes of this poverty are many and various, and we have already dealt with them in previous chapters. The excessive dependence on land, the burden of accumulated debts, the improvident habits of the ryots, the inelastic system of land revenue are the most important of these causes.

**Remedies of the physical causes :—**(a) Extension of irrigation facilities as a safeguard against deficiency or failure of rains, (b) the prevention of floods by reservoirs\* (c) improvement of transport facilities, communications, (d) extermination of the animals that destroy crops.

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\* The prevention of floods by reservoirs recently featured in the discussions of the Research Committee of the Central Board of Irriga-

**Remedies of the economic causes** :—The remedies for the economic causes mentioned above have been discussed in earlier chapters in other connexions. It should be observed that for the prevention of famines efforts should be concentrated upon raising the standard of living of the people of the country by the progressive industrialisation of the country. In this connection special attention should be given to the possibilities of reviving the cottage industries. We may briefly discuss in this connection two special remedies that have been suggested—*emigration and interprovincial migration*. The scope for the former is not very great, but encouragement of inter-provincial migration may lead to a more balanced distribution of population in different parts of the country.

**Famine Relief** :—(1) Weather forecasts are carefully studied with a view to ascertain in advance the possibility of deficiency or failure of rains. A famine policy is announced upon the advent of scarcity. There is suspension or remission of land revenue. Lists of persons requiring relief are prepared, and test works are opened to ascertain the severity of famines (2) Test works are converted into relief works. Those who are fit and able-bodied are employed in relief works like construction of roads, railways, etc. (3) The children, old men and women are given gratuitous relief. (4) As normal conditions return, people are transferred from relief works to villages.

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tion, and data from various parts of India were studied with a view to determining the size of reservoirs that would be necessary to control the floods in Indian rivers such as the Ganges and the Sone—Commerce, 14th September, 1940, P 270.

## CHAPTER IX

### Transport and Communications

**Introduction** :—The vital importance of transport from the economic standpoint can hardly be over-estimated. Trade and commerce cannot flourish unless suitable means of transport for the movement of goods as well as of men are available. Transport facilities are of special importance in a large country like India for the full utilisation of its enormous natural resources. The three important means of transport available in India are (a) the railways, (b) the motor transport, (c) the waterways. We may also refer to the air transport which however is yet in the stage of infancy in our country. Among the other means of communication mention should be made of the Posts and Telegraphs, the Telephone and the Radio. These have brought the different parts of the country closer together and have facilitated at once the political administration and commerce and trade in the country.

**The Railways** :—The development of railways in India passed through many stages of experiments—the responsibility for the construction of railways being alternatively assumed by the state and private companies enjoying a guarantee of interest from the state. In conse-

quence there is considerable diversity in respect of the ownership and management of railways in India, (1) *State ownership and State management* : The following important lines are owned and worked by the state : the North-western Railway, Eastern Bengal Railway, East Indian Railway and the Great Indian Peninsula Railway. (2) *State Ownership and Company Management*—Bombay Baroda and Central India, Madras and Southern Mahratta, Assam Bengal, Bengal Nagpur and South Indian Railways. (3) *Private Ownership and Private or State Management* : Two highly important lines. viz., the Bengal and North-western, and Rohilkund and Kumaon, and many other less important lines, some being worked by the owning companies and some by the state.

**The influence of railway development on the economic life of the country** :—The political, social and cultural advantages of the railways are pretty obvious, and need hardly be discussed in detail. But the manifold advantages of the railways from the economic standpoint deserve special consideration. The development of the railways has had far-reaching effects upon various departments of our economic life. (a) *Effect upon the rural economy of the country* : It has widened the market for agricultural commodities. It has greatly facilitated the work of famine relief. But one bad effect in this respect has been that the railways have contributed to the ruralisation of the country by the encouragement of the export of foodstuffs and of raw materials, and of the

import of manufactured articles. (2) *Effect upon the industries* : the railway has promoted the industrial development of the country by bringing within the easy reach of the industries their important raw materials, and also by expanding the markets for industrial goods. (3) *Effect upon Internal and External trade* : The trade and commerce within the country have increased greatly as a result of the Railway development. The foreign trade also has been promoted considerably.

**Land Transport** :—Road motor vehicles also are an important means of transport in India. Extensive road development in India is an urgent necessity. The lack of roads is felt particularly in rural areas. A disturbing feature regarding road transport in India is the deterioration of roads in recent years. The failure to follow any definite road programme also accounts for the unsatisfactory state of roads in India. It is only recently that the road problem has been engaging the serious attention of the Government. The Indian Road Development Committee was appointed in 1927 under the chairmanship of Mr. Jayakar. This Committee insisted upon systematic and scientific development of roads.

**Classification of Roads** :—Indian roads may be classified into metalled roads and unmetalled or *kachha* roads. The total mileage of metalled roads was 82,284, and that of unmetalled roads 224,433 in 1935-36. Roads may also be classified as arterial or trunk roads, and feeder roads which feed the railways and connect the more

important places in the district. Lastly, there are village roads which occupy an important place in rural economy.

**Roads vs. Railways** :—An important question that has come into great prominence recently is that of motor transport vs. railways. There is a great deal of wasteful competition between the two as there is an unnecessary duplication of transport services. A special grievance of the railways against motor transport has been that the latter enjoys an unfair advantage in that the cost of maintaining roads is mostly borne by the general taxpayers. In 1932 a Technical Committee (Kirkness Mitchell Committee) was appointed which went into the question of rail-road competition. The Committee pointed out that nearly 48 p. c. of the railways have metallised roads running parallel to them within a distance of ten miles. Any scheme of road improvement should provide for the improvement of feeder services than for the further construction of trunk roads. The Committee further pointed out that the railways have suffered from the competition of motor transport in respect of the passenger traffic. The carriage of goods by road motor services has not developed to an alarming extent. It is important to realise that there is no necessary antagonism between railways and motor transport. Motor transport has a distinct advantage in respect of lighter traffic and short-distance journeys. On the other hand, the strong point of the railways is in respect of heavy traffic and long journeys. They can supplement each other and there is ample room for co-operation between them.

There should be co-ordinated development of the two with due regard to this aspect of the matter.

**Waterways** :—Water transport can be considered under two distinct heads : (a) inland water transport, (b) marine transport. (a) The great river systems of Northern India—the Indus, the Ganges, the Brahmaputra were in the past the most important highways of commerce. Even now they are of vital importance providing as they do 26,000 miles of navigable waterways. The improvement of the waterways in India is necessary and was recommended by the Industrial Commission. (b) So far as the marine transport of India is concerned it is almost entirely in non-Indian (predominantly British) hands. India's share in the coastal trade amounts only to 25 p.c., and in the oceanic trade to about 2 p. c. Indians are excluded almost completely from the lucrative shipping business. The coastal trade is controlled by some large British navigation companies which hold a monopolistic position. It should also be noted in this connection that India possesses no shipbuilding industry that is worthy of mention. The present war however has directed the attention of the Government as well as of the public to the imperative need for the development of a ship-building industry in India for the production of steam-ships.

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## CHAPTER X

### **The Manufacturing Industries of India**

**Introduction** :—We have observed in earlier chapters, that agriculture is the main industry of the country. An unduly large percentage of the population of India depends upon agriculture. Near about ten per cent of the people are engaged in the manufacturing industries. It cannot be too strongly emphasised that on account of the excessive dependence on agriculture our national economy lacks a proper balance and equipoise.\*

**The Important Industries of India** :—*(a) The Jute Industry.* Before the development of the Jute Mill In-

\* Dr. R. K. Mukherjee points out that between 1911 and 1931 the percentage of industrial workers to the working population declined from 11.0 to 9.1. He refers to this as a process of 'deindustrialisation.' (See Food Planning, Preface). It is difficult to subscribe to this view. It has been pointed out "Indian census returns in respect of occupations have lost a great deal of their usefulness for comparative purposes as a result of the numerous changes in classification which have been introduced during each successive enumeration." The following lines deserve careful perusal, "The gap between the growth of population on the one hand and the absence of a correspondingly large increase in agricultural and industrial occupations on the other has, to a large extent, been made up by the increase in the distributional and other services (trade and transport and personal services)." Ghate—Occupational Distribution of Population, pp. 39 and 46.

dustry, there flourished in Bengal a jute handloom industry. This indigenous industry enjoyed its period of great prosperity from the beginning of the nineteenth century down till its middle. The second half of the nineteenth century witnessed the decline of the jute handloom industry and the rapid rise and amazing progress of the Jute Mill Industry. During the World war 1914-18 there was an industrial boom, and there was a large demand for sand bags so that the jute industry received a great impetus. With the advent of the post-war depression of 1921 stocks of goods accumulated in mill godowns and a short-time agreement was negotiated which restricted the working hours to fifty four per week. The mills continued to work for fifty-four hours weekly until 1929. Hours were increased to sixty for a time to meet increased competition, but with the beginning of the great economic depression, it became necessary to curtail production again. Restriction was enforced by reducing hours and sealing looms. "With improving trade and in order to meet competition the restrictions were withdrawn by the Association by stages between 1934 and 1937. Efforts were made to come to an agreement with the mills in India which had not been signatories of the agreement but these having failed the Association removed all restrictions imposed on its members."\* After the failure of an attempt at an agreement there was unchecked over-production and by September 1938 the jute industry appeared to be heading towards a major

\* "Capital," Jubilee Number, 3rd Nov. 1938.

crisis. At this stage the Government of Bengal intervened. At the end of September, 1938 the Government promulgated an ordinance for the regulation of working hours to forty-five per week and for the control of machinery. It was declared that on the expiry of the ordinance it would be replaced by legislation unless a voluntary agreement for restriction was arrived at in the meantime. "As a result of this the Indian Jute Mill's Association was able to announce early in January, 1939 that a voluntary scheme for restriction of working hours was unanimously agreed to by all the members. This new Agreement came into force from the 15th March, 1939."\* With the outbreak of the War in September, 1939 the Jute industry passed through a temporary boom period which was due mainly to large sand bag orders. In the later phases of the war the jute industry along with others has been hard hit.

We may judge the importance of the Jute industry from a few figures relating to the number of persons employed in the industry and the value of the export of jute manufactures. The value of the export of jute manufactures amounted to fifty seven crores of rupees in 1928-29. It has declined sharply since then but still amounted to over twenty six crores of rupees in 1938-39. The jute mills employ about 275,000 labourers.

Regarding the problem of the jute industry it should be noted that, as in the case of raw jute, this is one of increase of price by adjusting supply to demand. For

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\* Review of the Trade of India, 1938-39, P. 33.

this purpose mere restriction of production will not be successful. This involves a great burden because the costs of the maintenance of unwanted machinery have to be borne by the industry. The jute industry is manifestly overcapitalised and what is needed is a process of rationalisation. At the same time we must note that any attempt to increase jute prices to an unduly high level is likely to be frustrated. For the high price of jute would lead to the use of jute substitutes and alternatives. How far alternatives and substitutes can and will be used it has not been however definitely ascertained. The Jute Enquiry Committee said :—"The evidence that we received on this subject did not indicate that there was any large displacement of jute by the use of substitute fibres, nor did it show that the volume of jute substitutes actually in use at the time of writing our report was appreciable."\*

**The Cotton Industry** :—Like the jute handloom industry India had also an indigenous cotton industry which declined under the rule of the East India Company. Since the sixties of the last century, however, there has been a gradual development of the cotton industry. During the last world-war the cotton industry enjoyed a boom period. After the war, the industry was in a depressed state for a long time. In 1927 the first measure of protection was granted to the cotton industry. There has been a considerable development of the cotton industry

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\* Report, P. 25.

since the last war. During the last war we were dependent on foreign supply for the bulk of our requirements of cotton goods. To-day the Indian mills can supply more than 80 p. c. of the country's requirements of piecegoods. The average number of hands daily employed in the mills has steadily increased. It was above four lakhs in 1936. Of late the Indian mills have been affected by the severity of the Japanese competition in the Indian market.

**The Indian Iron and Steel Industry** :—The Iron and Steel industry is one of the important industries of India to-day. It employs about 25,009 persons. The development of Iron Industry is greatly due to the genius of Mr. P. N. Bose who discovered the famous iron-belt of India and to the genius of Mr. J. N. Tata who started the Tata Iron and Steel Company. The industry received a great stimulus during the last war. It was granted protection for the first time in 1924. The Iron Industry has greatly benefited from the present war also.

**The Sugar Industry** :—The sugar industry has developed rapidly since protection was granted to it in 1932. The recent Tariff Board on the sugar industry claimed that protection has practically revolutionised the sugar industry. In 1930 three quarters of the sugar consumed in India were imported from abroad. At present India imports a negligible quantity of sugar which is entirely of the refined variety. The sugar industry is mainly

concentrated in U. P. and Bihar. For the purpose of facilitating the marketing of sugar an All-India Sugar Syndicate was organised on a voluntary basis in 1937, but it was given a definite legal status in 1938 by the Congress Governments of U. P. and Bihar. Legal recognition was withdrawn from the Sugar Syndicate recently because it was found to be guilty of precipitating a crisis of overproduction by deliberately accumulating stocks. It has however been recognised again subject to conditions of reorganisation.

**Causes of Industrial backwardness in India :—**India possesses abundant natural resources but her industrial progress has been extremely slow for a number of reasons : (1) The Government policy of *Laissez Faire* in 19th century and indeed until the last Great War proved to be a great obstacle to the industrial advancement of the country. (2) Foreign exploitation—Foreign exploitation has also been responsible to a great extent for our industrial backwardness. It has been to the interest of the foreigners to use India as a source of raw materials and as a market for industrial goods. Severe foreign competition has been a standing menace to the Indian industries. (3) Poverty of industrial leadership and shortage of indigenous capital. (4) An unfavourable and unsympathetic Railway rates policy. (5) Lack of educated and skilled labour.

**The Government and the Industries :—**From the beginning of the East India Company's rule in India

down to the last Great War the Government policy in relation to Indian industries was one of complete indifference, so much so indeed that many of the indigenous industries, which flourished in this country at one time, languished under the British rule. A change in the Government policy was brought about by the experiences of the last war. (1) Appointment of Industrial Commission in 1916. The Commission definitely stated that India has a great industrial future before it. They pointed out however that a systematic policy of industrial development should be pursued under Government auspices. (2) Departments of the industries were started in all the provinces by the end of the war as recommended by the Industrial Commission. (3) Appointment of the Fiscal Commission in 1921. The Fiscal Commission strongly urged the adoption of a policy of discriminating protection by the Government of India in relation to the Indian Industries. The adoption of this policy by the Government marked the beginning of a new phase of the industrial development of the country. One industry after another was granted protection—the Iron and Steel Industry, the Match Industry, the Sugar Industry and so on. The policy of protection to the industries has been vindicated by the results it has achieved so far. Nevertheless there is a need for the cautious application of this principle in future. (4) The Tariff Board. According to the recommendation of the Indian Fiscal Commission Tariff Boards are appointed to consider the claims of industries to protection. The Tariff Board judges the claims of an industry to protection by

reference to three tests—(a) It must have natural advantages, (b) It must be in need of protection for rapid development. (c) It must eventually be able to face world competition. Recently the demand has been voiced for a permanent machinery of Tariff Board in India. (4) The present war which is raging in Europe has brought the Government as well as the public of this country a rude awakening. There is a keen and widespread realisation to-day that we are still very backward industrially. The demand has been put forward for the formulation of a clear-cut war-time industrial policy by the Government for the purpose of pushing up the industrial development of the country. The Government, however, have refrained so far from adopting a positive policy. They have, however, established a Scientific and Industrial Research Board and promised to liberalise the conditions of protection so that the industries started during the war may not be left high and dry after the war is over.

**Foreign Capital in India** :—There has been much controversy in India of late regarding the desirability of employing foreign capital in India for the purpose of industrial development. The following objections have been raised against the use of foreign capital, (1) The profits go out of the country, (2) In foreign firms the Indians have no opportunity of acquiring positions of responsibility and power, (3) Foreign vested interests are created which are opposed to the political aspirations of the country. As against this objection it may be

pointed out that the use of Foreign Capital will hasten the process of industrialisation of the country. So as long indigenous capital is not forthcoming in sufficient quantity it is to the advantage of the country to make use of foreign capital. But although the use of foreign capital is necessary and advantageous it should not be permitted to exploit the resources of the country in an absolutely free and untrammelled manner. Certain restrictions should be imposed upon foreign companies. (a) They should be incorporated and registered in India with a rupee capital. (b) A proportion of the shares of such company should be reserved for Indian investors. (c) A certain percentage of the directors should be Indian.

**Industrial Labour:**—With the progress of industrialism in India the problem of industrial labour is coming into more and more prominence. The following characteristics of industrial labour in India may be noted—(1) Its inefficiency. Much has been made of the inefficiency of Indian labour and attempts have been made to prove the inferiority of the Indian labour in comparison with the labourers of other countries in a mathematical manner. Such mathematical comparisons are extremely unreal. Nevertheless, the relative inefficiency of Indian labour cannot be denied. This inefficiency however cannot be regarded as rooted in Indian labour as such but is due to a number of environmental causes which are—(a) Physical, (b) Social, (c) Industrial, (d) Mechanical. (2) Another peculiar characteristic of Indian industrial labour is its migratoriness. There is no fixed

and settled industrial labour in India. The labourers are mostly villagers who come to the industries when they are in stress and difficulty and they always long to get back to their villages.

## CHAPTER XI

### Cottage Industries

**Introduction** :—It is important to realise that the cottage industries and small industries occupy a place of great importance in the economy of this country. It was the realisation of this fact that has led the Congress to lay the utmost emphasis upon the claims of small industries. The plans for the industrialisation of the country which the National Planning Committee are drawing up have given due consideration to these industries. The cottage industries have been of inestimable value to Japan and there is every reason to believe that they have an important role to fulfil in the economy of this country too.

**The important cottage industries of India** :—(1) *The Cotton Handloom Industry*—This is the most important

cottage industry of Bengal and indeed of all India. It provides employment for about 6 million people. 25% of the total demand for cloth in India is met by the hand weavers.

*(2) The Woollen Industry*—The woollen industry flourished well in India under the Moguls. The carpet-weavers were a prosperous class in those days. Under the British rule the internal demand for carpets has fallen off, but an external demand has replaced it to some extent. Under this head may be considered shawl manufacturing of which Kashmir is the important centre. Another important woollen good is the rough blanket.

*(3) The silk manufacture*—The silk manufacture is an important cottage industry in the country. India had at one time a very flourishing indigenous silk industry of which Bengal was the most important centre. The industry has languished greatly but the question of granting increased protection to it recently engaged the attention of the Tariff Board. The latter recommended an increase in protection, but the whole matter has been shelved by the Government.

**Cottage industries of Bengal** :—Besides the handloom and silk industry to which we have already referred above Bengal has other important cottage industries like brass and bell-metal work (Presidency and Burdwan districts), cane and bamboo work (Midnapore, Jessor, Tipperah), lace industry and so on. The recent Land Revenue Commission of Bengal pointed out : "The development of such industries is of primary importance in considera-

tion of the number of people which such industries might employ." The Commission thought that an industry that may be developed in every village is that of *paddy husking*. For this purpose a simple type of husking machine might be introduced into the villages. The Commission proceeded to point out that there are great possibilities for the manufacture of carpets, satranchis, and other articles from choir in all districts where cocoanut trees grow abundantly. *Baskets* are commonly manufactured in the village but there is at present no organised centre for the industry. *Pottery* is imported into Bengal on a large scale though the materials exist in the province for local manufacture. There are thus many lines along which development may be carried out.

**How the Cottage Industries may be fostered and developed:**—We have already pointed out at the beginning of this chapter the importance of cottage industries. In this view it is essential that a systematic policy of the development of cottage industries should be pursued in this country. The Government should be prepared to bear their share of the burden. Protection of these industries may well claim the serious attention of the Government. The plea that the Federation of Indian Chambers of Commerce recently put forward for the relaxation of the rigid conditions of discriminating protection in relation to the small industries deserves the most serious consideration. It was also rightly urged that the Government should assume respon-

sibility for developing small industries from their infancy. The Provincial Departments of industries should be prepared to do their part in relation to small industries. They can render positive help to the industries in various ways—by furnishing financial facilities, marketing facilities, industrial intelligence and so on.

The Bombay Economic and Industrial Survey Committee whose report has just been published dealt at length with the problems of cottage industries. They point out that the main difficulties of the industries arise in connection with the obtaining of raw materials, inefficiency of technique and implements, finance, marketing and taxation. According to the Report, "a serious handicap in the expansion of small-scale industries is stated to be the absence of technical assistance and expert advice." It may be noted in this connexion that the Industrial and Scientific Research Board that has been recently set up should devote proper attention to the needs and difficulties of small industries.

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## CHAPTER XII

### Banking and Currency

**Introduction** :—The importance of the banking system in the economic life of a community cannot be too strongly emphasised. Banking is above all in the modern world the key industry which vitally affects all other industries for no industry can be carried on without adequate supplies of credit which are provided under modern conditions by banks. In this view proper development of banking is absolutely essential to the progress of the trades and industries of a country.

The structure of the Indian money market is somewhat complex. Its components are :—(1) the Indian joint stock banks—these are banks registered under the Indian Companies Act. (2) the Exchange Banks which are foreign banks with their head offices located outside India, (3) the co-operative banks, (4) the Indigenous bankers who form an indeterminate but a very important group, (5) the Imperial Bank of India and (6) the Reserve Bank of India which forms the apex of the banking structure in India

**The Indian Joint-stock Banks** The beginnings of joint-stock banking in India may be traced back to 1860, when the principle of limited liability was introduced in this country. Taking a long view it appears that the history

of joint-stock banking in India is one of continuous development.

There is however no reason to be satisfied with the development that has been attained so far. The Foreign Experts associated with the Central Banking Enquiry Committee had expressed the opinion that "taking into account the structure and state of development of this country, it cannot be said that the number of banking agencies and the amount available for the granting of credit, are insufficient." This view however cannot be accepted. It is the consensus of opinion among economists and bankers in India that there is enormous scope for banking development in India.

**Exchange Banks in India** :—The exchange banks are foreign banks. The exchange banks have practically a monopoly of financing the foreign trade of India. An alarming feature of the business of exchange banks in India is said to be their penetration into the internal trade in India.

Indian traders and importing firms have also brought serious charges of discriminating treatment against them by the exchange banks. The question of exercising some control over the exchange banks has loomed very large in recent times.

**Indigenous Banks** :—Who are the indigenous bankers? The indigenous bankers are not required to register themselves under any law, and as such there is no legal definition of the term available. The special feature

that distinguishes indigenous bankers from mere money-lenders is that they receive deposits and deal in hundis in addition to making loans. No detailed or statistical information is available regarding them although it is recognised that they play a very important part in the banking system of the country. Agriculturists, traders, merchants and small industrialists have to depend largely on indigenous bankers and money-lenders in places where joint-stock banks do not exist. Further in many provinces even in localities where joint-stock banks or their branches are functioning the indigenous bankers are found to render valuable services in connexion with the financing of internal trade and middle-sized and small industries and inland remittance work.

**Imperial Bank of India** :—With the creation of the Reserve Bank the Imperial Bank became the biggest commercial bank in India. It however still enjoys a special status being still governed by a special Act (which was amended in 1934) and being the sole Agent of the Reserve Bank of India at places in British India where there is a branch of the Imperial Bank of India and there is no branch of the Banking Department of the Reserve Bank.

**The Reserve Bank of India** :—The banking system of India is a diversified and complex structure the relations between the different parts of it being of the loosest possible character. It has always been the outstanding problem of Indian banking as to how an integration and unified control of the entire banking

system may be ensured. The Reserve Bank which is the Central Bank of India was set up in 1934 with the definite object of achieving this object.

In this view the Reserve Bank of India as the Central Bank is expected to follow a national banking policy which will further the widest interests of the country. The time has not yet come perhaps to pronounce a definite judgment on the record of the Reserve Bank in this respect as it has been in operation only for a period of five years.

**The Currency system of India** :—The Currency System of India has passed through several distinct stages of evolution. From about the beginning of the present century till 1927 we had the Gold Exchange standard. In 1927 the Gold Bullion standard was introduced on the recommendation of the Hilton Young Commission. In 1931 with the breakdown of the gold standard in England the Indian rupee was linked to sterling, and this introduced what is known as the sterling exchange standard.

The present standard in India is the sterling exchange standard. The currency system that we have in India to-day may be described as follows :—

For the purpose of external payment the Reserve Bank buys and sells sterling exchange above a certain amount. Internally the rupee is the standard coin which circulates along with notes. Notes are backed by 40%

assets of gold coin, gold bullion and sterling securities. The remainder of the assets consists of rupee coins, Government of India rupee securities and of eligible bills.\*

## CHAPTER XIII

### The Trade of India.

**Introduction:**—The trade of India may be considered under three distinct heads: (a) *The sea-borne trade*, (b) *The trans-frontier trade*, (c) *The internal trade*. We shall be concerned here with the first. We may begin by considering the principal characteristics of India's sea-borne trade. (1) The most important characteristic of India's sea-borne foreign trade is that most of her exports consist of food-stuffs and raw-materials while manufactured articles are most important in her imports. (2) A second important characteristic of India's foreign trade is that her imports comprise a wide variety of articles, while her export trade is confined to a few staple commodities like raw-cotton, jute, tea, oil-seeds, food-grains etc. (3) The predominance of Britain in our foreign trade which however has been diminished to some extent since the last war. (4) India

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\* Gold Exchange Standard:—"The characteristics of the system were: (1) the internal medium of exchange was token coin—the rupee, (2) this coin rupee was linked with gold for purposes of international payments, its external value being supported by the Council Bills and Reverse Councils."

has usually an excess of exports over imports, that is, a favourable trade balance.

**Distribution of India's Foreign Trade (a) by chief countries** :—As regards import trade, the percentage shares of the different countries in 1938-39 were as follows : United kingdom—30·5%, Burma 16·0; Japan 10·1, Germany 8·5, U. S. A. 6·4 and so on.

As regards exports the shares were as follows :—U. K.—34·0%, Japan 9·0, U. S. A. 8·5, Burma 6·2, Germany 5·1, and so on.

**(b) By chief commodities—Imports** :—Cotton and cotton goods—14·88%, machinery and mill work 12·50, oils 10·26.

**Exports** :—Jute raw 8·22, jute manufactures 16·12, cotton raw 15·14, cotton manufactures 4·37, tea 14·38, seeds 9·26.

**Change in the Nature of India's Imports** :—It is pointed out : "There appears to be a definite change in the nature of India's imports. The relative significance of goods of general consumption has diminished both in their relation to importers and in their contribution to import duty. The importers of raw materials and capital goods have become more important while luxuries have maintained a more or less stable position."\*

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\* The Burden of the Indian Tariff by T. E. Gregory and W. R. Natu.

## CHAPTER XIV

### Public Finance in India

**Introduction :—**In India the study of public finance is somewhat complicated. This is due to the fact that, on the one hand, there is the Central Government and, on the other, there are the Provincial Governments. Public finance in India is concerned with, both. The financial relations between the Central Government and the Provincial Governments have passed through several stages of evolution. The proper adjustment of these relations has always presented serious difficulties and no satisfactory way out of them can yet be said to have been found. In the early stages of the British rule in India there was a complete centralisation of financial control in the hands of the Government of India. Beginning from 1871 a process of decentralisation was started which reached its climax under the Reformed Constitution. The keynote of the new Constitution (1919) was the introduction of popular Government in the provinces. It was realised that it was necessary to give the Provincial Governments increased control over financial matters if the principle of popular government was to have full play in the provinces. The principle of financial clean-cut was adopted and there was a complete separation of

the heads of revenue as between the Central and Provincial Governments in the following manner :—

*Central*—Customs and excises, Income-tax and Super tax, salt, opium.

*Provincial*—Land, Revenue, Excises on alcohol and narcotics, stamps, registration fees.

**Federal Finance** :—The scheme of financial relations introduced under the Reforms was found to be thoroughly unsatisfactory in practical operation. The provinces were saddled with the responsibilities of a number of nation-building departments, but they were not armed with sufficient funds to enable them to discharge their responsibilities in an adequate and satisfactory manner. The sources of revenue allowed to the centre were elastic and expansive, while its items of expenditure were more or less of a stationery and fixed character. On the other hand, the sources of revenue of the Provincial Government were inelastic, although their expenditure was capable of great expansion specially in relation to the nation-building activities. The basic defect of this financial arrangement lay in the fact that it put excessive emphasis upon a clear-cut separation of the heads of revenue. It is worthy of note that federal finance in other countries is not characterised by such a rigid dichotomy. To remedy this defect the financial arrangement that has been adopted under the Government of India Act 1935 does not follow any

single principle of classification. The allocation of revenues that has been made under the Act is of a somewhat complex character.

The structure of federal finance under the new constitution is as follows :

I. The Federal Legislative List contains certain heads of revenue which are to be raised and appropriated by the Federal Government, e. g. :

- (a) Import Duties except on Salt.
- (b) Contributions from railways and other federal commercial undertakings (i. e., posts and telegraphs).
- (c) Corporation Tax (which would not be levied in the first ten years in the Indian States).
- (d) Coinage profits and share in the profits of the Reserve Bank.

II The Federal Legislative List also comprises certain items in respect of which the Federal Government will have the right to levy taxes but the net proceeds of which would be assigned to the Provinces and to those states where such taxes are levied :—(a) Stamp Duties (commercial), (b) Duties in respect of succession to property other than land, (c) terminal taxes on goods or passengers carried by railway or air and taxes on railway fares and freights. (It is provided that the Federal Legislature may at any time increase any of the said duties or taxes by a surcharge for Federal purposes).

III. There are certain other heads of revenue in Federal Legislative List which are to be levied and col-

lected by the Federal Government, but the proceeds thereof may be assigned partly or wholly to the federating units. (a) Export Duties\*, (b) Salt Duties, (c) Federal Duties of Excise on tobacco, and other goods manufactured in India).

IV. There are some heads of revenue included in the Provincial Legislative List which are to be raised and appropriated by the Provincial Governments :—(a) Land Revenue. (b) excise duties on alcohol, drugs and narcotics, (c) stamp duties (non-commercial), (d) taxes on agricultural incomes, (e) forests, (f) other miscellaneous items.

V. As regards taxes on income these shall be levied and collected by the Federation, but a prescribed percentage of the net proceeds in any financial year shall be assigned to the Provinces and to the Federated States.

**The Niemeyer Award** :—Sir Otto Niemeyer was appointed by the Secretary of State in 1936 to make recommendations to His Majesty's Government on matters relating to Section 138(1) and (2) of the Government of India Act 1935 (this Section deals with allocation of taxes on income), Section 140 (which deals with the assignment of the net proceeds of the Jute Export Duty), and Section 142 (which deals with grants in aid

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\* The Act (Section 140) definitely provides that one-half of the proceeds of the jute duty would be assigned to the jute-growing provinces.

of the revenues of the Provinces). Sir Otto Niemeyer's recommendations\* in respect of these three matters may be briefly stated. (1) Taxes on income. Sir Otto estimated that the annual income-tax yield would be in the neighbourhood of Rs. 12 crores. He recommended that fifty percent of this yield should be handed over to the Provinces. But in the years immediately following the introduction of Provincial Autonomy there can be no question of the Centre's relinquishing a further six crores or so of its resources. During an initial period of 5 years beginning from the introduction of Provincial Autonomy the centre may retain out of the 50 p. c. assigned to the Provinces the whole or such sum as is necessary to bring the proceeds of the 50 p. c. share accruing to the Centre together with any General Budget receipts from the railways up to 13 crores whichever is less. During a second period of another 5 years the centre shall relinquish to the Provinces by equal steps so much of the Provincial share as it is retaining in the last year of the first period. Within about ten years from the commencement of the Provincial Autonomy the Provin-

\* Sir Otto stated :—“Throughout the discussions leading up to the Government of India Act, it has been recognised that at the inauguration of Provincial Autonomy each of the Provinces should be so equipped as to enjoy a reasonable prospect of maintaining financial equilibrium and in particular the chronic state of deficit into which some of them had fallen should be brought to an end.....From the Central point of view on the other hand it is clear that the financial stability and credit of India as a whole must remain the paramount consideration.” P. 2.

ces may hope to be enjoying their full share under this revenue head. (2) 50 p. c. of the Jute Export Duty had been assigned to the Provinces by the Government of India Act. Sir Otto recommended its increase to 62½%. (3) Assistance to Provinces. This is to be rendered in two forms, in the form of annual cash subventions and in the form of cancellation of debts incurred prior to April 1, 1936.

*General Statement of the Revenue and Expenditure of the Central Government.*

Principal Heads of Revenue.	Heads of Expenditure.
1. Customs 39·16	Defence Service 59·40
2. Central Excise Duties 10·14	Civil Administration 11·80
3. Corporation Tax 5·30	Debt Services 12·11
4. Income tax 14·20	Civil works etc. 3·22
5. Salt 8·20	Other items 45·20
6. Opium '47	
Other heads 54·26	
Total 131·73	Total 131·73

**Central Revenue—Customs** :— The Customs duties are the most important source of revenue of the Central Government. For 1940-41 they are estimated to yield 39 crores of rupees. During the

pre-depression period their yield was much higher (being 51.28 crores in 1929-30). The Customs duties are duties on exports and imports. These duties can be revenue duties i. e., duties which are intended to increase the revenue of the Government, or, protective duties i. e., duties which are imposed to protect indigenous industries. Such duties are not profitable from the Government point of view.\* With the adoption of the Imperial preference preferential duties also have become an important feature of the Indian Tariff system. It is worthy of note in this connexion that under the conditions of war the customs already show signs of becoming a declining source of revenue.† An important point that should be noted in connection with the customs duties that they are a form of indirect taxation and as such bear hard upon the poor. From this point of view

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\* "Protective duties are only completely successful when all foreign goods are excluded, and therefore attain their end most effectually when they bring in no revenue whatsoever." Bastable—Theory of International Trade, P. 110.

† Sir Jeremy Raisman in his Budget made some allowance for this factor but it appears that he underestimated its importance. Said Sir Jeremy :—The forecasting of customs revenue is at all times a matter of great difficulty—in the circumstances of the war the task is rendered even more difficult by major uncertainties of a kind unparalleled in peace. Of these uncertainties shipping difficulties and import restrictions are worthy of special mention. (See Finance Member's Budget Speech).

‡ "The yield of import duties has always been the most important item in India's actual tax revenue. Though its proportion had fallen over the period (1926-27 to 1937-38) from 58 p. c to 49 p.c,

an excessive reliance upon this source of revenue is not desirable.

**Central Excise Duties** .—The two important excise duties are those on sugar and matches. The sugar excise duty has been very unpopular in this country as it has imposed a burden upon a nascent industry. To cover the budget deficit for 1940-41 the Finance Member, among other measures, increased the excise duty on sugar from Rs. 2 to Rs. 3 a cwt.

**Corporation Tax** :—This is a tax on the profits of companies. It is estimated to yield 5 crores of rupees for 1940-41.

**Income Tax** :—Next to customs revenue income tax is the most important source of revenue. This source may be expected to become more important in future as our system of taxation is brought into line with the tax systems of the advanced countries of the world in which main reliance is placed on direct taxation. The income tax is estimated to yield 14,20 crores of rupees. It is to be remembered that under the Niemeyer Award a certain percentage of the income tax yield is to be given to the provinces. Under this arrangement, the Centre re-

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which itself was still very considerable it has again risen to 59 p. c. in 1937-38. Thus half or more than half of this country's central tax revenue is dependent on a type of taxation which is regressive in character." The Burden of Indian Tariff by T. B. Gregory and W. R. Natu' P.44

tained from the provincial share of fifty per cent an amount sufficient to bring its own share plus the railway surplus to Rs. 13 crores. By a recent amendment by an Order-in-Council to the Niemeyer Award this arrangement has been altered.\* According to this amendment "in each of the three years beginning with the current year (1939-40) the centre is to retain from the provincial moiety the fixed amount of Rs. 4,50 lakhs." (Budget speech, 1940-41). Under this arrangement the share of the Provinces is expected to reach the figure of Rs. 3,00 lakhs during 1940-41.

**Salt** :—This is expected to yield about 8 crores during 1940-41. The salt tax is very unpopular in this country. It is a tax upon a necessary which enters into the consumption of vast millions. It is a vitally important ingredient in the diet of the people of a tropical country and as such the restriction of its consumption is highly undesirable. The Congress Party in the Assembly attempted to secure its abolition but without success.

**Opium** :—The revenue from this source is expected to amount to 47 lakhs of rupees during 1940-41. It is an unimportant source of revenue at present. The Go-

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\* "The justification for this alteration in the Niemeyer formula is of course the complete change in the financial situation brought about by the war. The centre has had to shoulder the entire burden of increased expenditure on Defence, and an appreciable amount of extra civil expenditure arising out of the war, while there has been very little corresponding increase in provincial expenditure." (Budget speech).

vernment of India responded to the efforts of the League of Nations to stop the opium traffic, and in consequence the exports of opium to foreign countries ceased at the end of December 1935. Since then the revenue under this head has been derived solely from opium sold for consumption in India.

**Central Expenditure** :—As regards Central expenditure the important items are, Defence Services, Civil Administration and Debt Services. These absorb between them the major share of India's revenue.

**Defence Services** :—The Defence Budget for 1940-41 worked out on the basis of the settlement with His Majesty's Government amounts to Rs. 53,52 lakhs.\* The total extra expenditure which will be thrown on the Defence estimates payable by India as a result of the war is Rs. 8,39 lakhs. The war measures that have been adopted since are expected to involve an additional expenditure of Rs. 20 crores. The military expenditure in India is too high in proportion to the income of the Government. There is considerable room for economy under this head. Indianisation of the army can afford

\* Chatfield Committee recommended a capital outlay of Rs. 45 crores on Indian defence which would be furnished by His Majesty's Government, three-fourths as a pure gift to India and the balance as an advance to be repaid on easy terms "His Majesty's Government have agreed to continue to implement during the war, at greatly enhanced cost to them, the Chatfield programme for the modernisation of the Army of India."

considerable relief, but so far this has not been attempted at all except in a very cautious and hesitant manner.

**Civil Administration** :—Likewise civil administration involves a considerable amount of expenditure. During 1940-41 expenditure under this head would amount to Rs. 12 crores. *Debt services* would involve a similar amount of expenditure.

**The Provincial Budget** :—The Budget of the Government of Bengal for 1940-41 :—

(In thousands of rupees)

Customs	2,20,00	Police	2,30,76
Income tax	55,60	General Administration	1,80,59
Land Revenue	3,67,98	Administration of	
Provincial Excise	1,60,50	Justice	1,00,89
Stamps	2,65,00	Jails	35,83
Forest	22,34	Education	1,68,13
Registration	25,00	Medical Relief	58,15
Motor vehicles		Public Health	48,43
taxes	21,80	Agriculture	17,51
Other taxes and		Industries	21.18
Duties	49,60	Veterinary	6,87
Other Heads	2,09.46	Other charges	5,85.89
<b>Total*</b>	<b>13,97.28</b>	<b>Total†</b>	<b>14,54.23</b>

\* Total Revenue Receipts.

† Total Revenue Expenditure.

**Revenue—Customs** :—(2 crores) These are Bengal's receipts from the Central Export Duty on jute. They began in 1934-35 when the Central Legislature voted 50 p. c. of the net proceeds to the jute producing provinces. This percentage was raised to 62½ with effect from 1937-38.

**Income tax** :—(55½ lakhs) Section 138 of the Government of India Act provides for the assignment to the provinces of a share of net proceeds of taxes on income other than agriculture income. The basis on which this assignment was to be made was laid down by the Niemeyer Award to which a recent amendment has been made by an order-in-council. In consequence the hopes of an increased share of the income tax that might have accrued to the provinces as the result of the increase in contribution from the railways to the central revenues have been blasted.

**Land Revenue** —This is a stationary source of income (Rs. 3 crores) on account of the Permanent Settlement.

**Stamps** :—Another important source of revenue. It would bring about 2 crores.

**Excise** —It yields Rs. 1½ crores.

**Forests** would bring 22 lakhs, Registration 25 lakhs, Motor vehicles taxes 21 lakhs. Other taxes and duties include taxes on luxuries (entertainment tax and betting tax) which would yield between them a little over 18 lakhs of rupees. Electricity duties yield Rs. 20½ lakhs.

Receipts under the Bengal Finance Act are expected to yield 11 lakhs.

**Provincial Expenditure**—As regards provincial expenditure it is to be observed that the police, general administration, administration of Justice, absorb between them the major share of the provincial revenue, and very inadequate sums are left over for the developmental and beneficent activities of the Government.\* For education, for instance, a paltry sum of Rs. 1½ crores has been provided. The proper financing of a scheme of primary education alone is likely to cost Rs. 4 crores. The optimum expenditure under this head can hardly therefore be less than Rs. 5½ crores. During 1938-39 Bengal made a provision of Rs. 32½ lakhs for primary education, whereas Bombay budgeted Rs. 1½ crores for this purpose. Regarding the expenditure on agriculture the Land Revenue Commission recently pointed out, "we realise that the Agriculture Department in Bengal has been handicapped by lack of funds... The present provision (for 1940-41 it is Rs. 17½ lakhs) is quite insufficient for the needs of the province, the minimum requirement would be in the region of Rs. 27 lakhs." During 1938-39 Bengal spent nearly about Rs. 14 lakhs on agriculture, whereas Madras spent Rs. 20½ lakhs, U. P. 56½, and Punjab about 36 lakhs. For medical relief and public health the budget provides Rs. 106 lakhs, but the expenditure under this head needs to be increased to at least Rs. 127 lakhs.











